
Burnham Parish Council

Internal Audit Report 2017-18 (Final)

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Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported each year as part of the Annual Return process.

This report sets out the work undertaken in relation to the 2017-18 financial year, the final visit for which took place on 31st May 2018 and supplements the interim work undertaken on 22nd February 2018 (two “man days” at this first visit).

Internal Audit Approach

In completing our review, we have paid due regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/Annual Return.

Our programme of cover has been designed to afford appropriate assurance that the Council’s financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council’s own and the national statutory regulatory framework. We have, consequently, employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in order that we may sign-off the Internal Audit Report within Council’s revised Annual Governance and Accountability Return (AGAR in short), which requires independent assurance over ten specific internal control objectives.

Overall Conclusion

We are pleased to conclude that, in all the areas examined for the year, the Council operates generally effective control systems in place that should help ensure that transactions are free from material misstatement and are reported accurately in the Statement of Accounts.

We have previously identified a few areas where we consider that further action is required to further enhance existing controls and / or correct one or two financial anomalies that have arisen at the interim stage and this report provides an update of the steps taken to address the points raised to date.

None of the matters had a material impact on the accounting results for the year and we have duly signed off the Internal Audit Report at Page 3 of the AGAR, assigning positives assurances in all categories.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council uses Sage software to maintain its day-to-day accounting records, which also form the basis of the year-end Statement of Accounts and Annual Return. The Council now operates two separate bank accounts with Barclays plc, together with a Barclaycard: further “surplus” funds being held in a CCLA Deposit Fund account. Our objective in this area is to ensure that the accounting records are being maintained accurately and in a timely manner and that no anomalous entries appear in cashbooks or financial ledgers. We have consequently: -

- Ensured that an appropriate income and expenditure coding structure is in place;
- Checked the year’s opening balances for 2017-18 to those reported in the closing Trial Balance and Annual Return for 2016-17;
- Checked and agreed detail of Current and “Mixed” account transactions as recorded in the detailed nominal ledgers for three sample months (April & October and March 2018) from the cashbooks to the relevant and bank statements; and
- Reviewed and verified Current and Mixed account bank reconciliations as at 30th April & 31st October 2017 and as at 31st March 2018, noting that no long-standing uncleared cheques or other anomalous entries exist, and that members are routinely provided with same at Council meetings.

Conclusions

There are no matters arising in this area to warrant formal comment or recommendation.

Review of Corporate Governance

Our objective here 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; that financial transactions are made in accordance with the extant Financial Regulations and that we have a reasonable chance of identifying any actions of a potentially unlawful nature that have been or may be considered for implementation. Consequently: -

- We have reviewed the Full Council and standing Committee minutes (except for Planning & Highways) for the financial year to end March 2018 to ensure that no issues exist that may affect the Council’s financial stability either in the short, medium or long term exist;
- Noted that Standing Orders (SOs) and Financial Regulations were reviewed and re-adopted at the Full Council meeting on 8th May 2017. We have examined the content of the documents noting that the Council has acknowledged and recognised the requirements of the 2015 Public Contract Regulations indicating a limit of £25,000 for the formal advertising of contracts on the Government’s Contract Finder website (FRs para 11.1 refers);

- However, we note that both the SOs and FRs imply a formal tender limit of £60,000 (SOs paras 30 (a) (v) and (b) refer and FRs para 11.3 refers) and consider that the £25,000 limit aligned to the Public Contract Regulations is a more appropriate level, as also set out in the latest NALC model documents; and
- We are pleased to note that the value of the Council's Precept for 2018-19 (£522,700) was formally recorded in the minutes of the March 2018 meeting following audit comment in our previous interim report.

Conclusions and recommendations

Whilst no significant issues of concern have been identified in this area currently, we consider, as above, that the limit for formal tender action should be reduced to £25,000. In reviewing minutes posted on the Council's website, we note that the Chairman's signature is displayed on the minutes. Whilst we appreciate the desire to comply with the Transparency and Openness Codes, publication of signatures on the website could pose a potential threat and, consequently, we suggest that all published documents should be edited to remove / redact officers' or members' signatures.

We will review minutes for the remainder of the year at our final visit, also considering the Council's approach to Governance and signing off the Governance Statement in the year's Annual Return.

- R1. The Council should consider setting a lower limit of £25,000 for formal tender action, bringing it into line with the NALC model Financial Regulations.*
- R2. Detail posted on the Council's website should exclude detail of any officers' or members' signatures to protect against their potential copying and / or fraudulent misuse. This has been actioned with immediate effect.*

Review of Expenditure

Our aim here is to ensure that, in addition to confirming that sound financial control procedures are in place: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate procedures are in place to ensure compliance with the Council's SOs and FRs in relation to tendering and quotation action;
- 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;
- Where applicable, appropriate contracting arrangements are in place and that they comply with the Council's current Standing Orders and Financial Regulations;
- 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.

To ensure compliance with the above criteria, we have examined a sample of approximately 75 payments processed in the financial year to 31st March 2018. Our test sample includes all individual non-pay related payments in excess of £2,500, plus a more random selection of every 40th payment (irrespective of value) in order to provide a broad cross section of expenditure and traders' invoices: the sample of approximately 85 items in all totalled just over £304,500 and represented 50% of total non-pay related expenditure for the year.

Finally in this area, we note that VAT Returns continue to be submitted, electronically as required by extant legislation, in an accurate and timely manner and have verified the December 2017 submission accordingly with no matters arising.

Conclusions

There are no matters arising in this area to warrant formal comment or 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 to minimise the opportunity for their coming to fruition.

- We have examined the Council's approach to the identification, recording and management of risks noting that the Council re-adopted its Financial Risk register at the Policy and Resources Committee meeting on 30th May 2017;
- We also note the existence of an overall financial risk policy;
- We are also pleased to note that the Council uses RoSPA to undertake an annual inspection of its play areas, with weekly reviews and reports also prepared by the Council's groundsmen, detail of which is retained in hard copy format; and
- We have examined the Council's insurance policy with Zurich Municipal for the financial year with Public and Employer's Liability cover in place at £15 million and £10million respectively; Fidelity Guarantee cover at £1 million, Hirer's Liability cover at £2 million and Business Interruption cover at £540,000, all of which we consider appropriate for the Council currently.

Conclusions

We are pleased to report that no issues have been identified in this area warranting formal comment, although we suggest that, given the potential for injury claimants to lodge a claim up to the age of 21 in certain circumstances, that the weekly reports be kept for that length of time, ideally in electronic format to minimise storage requirements.

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 of the precept placed on the collecting authority, 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. Consequently

- We note that, following recommendation by the Policy and Resources Committee, Full Council approved a precept increase of 2% for 2018-19 at the meeting held on 11th December 2017, although the actual precept value (£522,700) was not formally recorded in the minutes at that time but has been (March 2018) subsequent to the previous interim audit comment;
- We are pleased to note that members continue to receive and approve each month detail of management accounts, a summary of ring-fenced funds and bank reconciliations, all of which we consider reflects good practice; and
- We note that, as at 31st March 2018, Total Reserves stood at £276,000 and comprised of specific Earmarked items amounting to £145,000 with a residual General Fund of £131,000, which represents approximately two months gross expenditure at current levels.

Conclusions and recommendation

Whilst no matters of significant concern have been identified in this review area to date, in line with best practice, the Full Council minutes recording formal adoption of the annual precept should also record the actual precept value.

R3. The Council minutes should identify the actual value of the approved annual precept; that for 2018-19 should be minuted formally at the next full Council meeting. Agreed and actioned accordingly in March 2018

Review of Income

In this area of review, we aim to ensure that income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale, also that it is banked promptly in accordance with the Council's Financial Regulations.

We have, at our previous interim visit to the Council, focused attention on income arising from hire of Burnham Park and its various meeting rooms noting that the Avalon software is in use to record and manage bookings, together with generating invoices.

Consequently, we have selected a week's bookings (w/c 8th January 2018) as recorded on the software. We understand that regular hirers generally only complete a hire agreement form at the time of their initial booking and are not subject to periodic renewal either at the start of each hire term or, as a minimum, annually. Casual hirers are required to complete an agreement form at the time of booking, although, where bookings are received by phone, the agreements are not always signed as they are generated on site.

We note that invoices are raised through the software for regular hirers at the end of each month covering the full month, whilst those for casual hirers are raised generally at the time the booking is made and a booking deposit is received.

We have examined the file of agreement forms for casual hirers, forms being filed by month in date order of the booking, with no issues identified other than a potential concern that, in the event of any damage or injury arising during a hire period, were the agreement form not signed, the Council could potentially be at risk of loss.

We have also reviewed the invoices raised covering that period ensuring that, for casual hires, the appropriate fees have been charged in accordance with the approved scale of fees and charges. We note that regular hirers are receiving varying levels of discount ranging from 0% to as much as 50% and understand from the General Manager that the variances have arisen over the years with more recent regular hirers receiving lower discounts than longer term clients.

Whilst we acknowledge that the Council needs to maximise the use of the venue, the application of such significant variances in the discounts being applied could generate problems in the future were clients to compare the prices they are charged for hire of the same facilities. Consequently, we suggest that the Council should develop an appropriate policy and pricing structure reflecting a more standardised approach to discounts to be applied dependent on the nature of the hirer.

Conclusions and recommendations

We are pleased to report that no major issues have been identified in this area at present, although we suggest that the Council should review and establish a more formalised policy on the discounted charges to be applied to regular hirers, also ensuring that formal signed agreement forms are obtained covering all hires.

As indicated above, we shall undertake further work in this area at future visits including the preparation of our annual, analytical review of incomes arising across the range of budget headings.

- R4. Regular hirers should be required to sign new hire agreements either at the start of each term / hire period or at least once annually.***
- R5. Where casual bookings are taken by phone or e-mail, hirers should be required to sign a formal agreement form as and when they attend the venue to protect the Council's interests in the event of any damage arising during the hire period.***
- R6. The Council should develop a more equitable approach to the provision of discounted hire rates for regular hirers to ensure greater equanimity of charges levied between the various types of hirer.***

Review of Petty Cash and Cash Handling Procedures

We are required, as part of the annual Internal Audit Reporting process, to indicate the soundness of controls in this area of the Council's financial activities. Consequently:

- We note that the Sage Balance Sheet records cash floats of £1,200, which are split into a £600 change float held in the bar safe, floats of £150 each for the two bar tills and £100 for the Reception till, the remaining £200 being used to fund petty cash expenditure, the account being operated on an “imprest” basis with periodic top-ups to replenish actual expenditure incurred;
- A handwritten petty cash register is maintained recording detail of individual payments, together with the reducing balance and detail of reimbursements received to return the holding to £200;
- We have examined a sample of transactions including all those between 1st January 2018 and the date of the interim audit visit (22nd February 2018), ensuring that an appropriate trade invoice or till receipt is held in support of all expenditure with VAT being identified for recovery, wherever appropriate on entering detail to the Sage accounts;
- We have also checked the physical cash retained by the General Manager during the first visit, noting that £201.01 was actually held in the petty cash tin, an excess of £1.01 over the nominally held cash imprest balance. We also noted that the manual record recorded a cash holding of £195.93 following a recent “top-up”: therefore, at the time of our review a surplus cash holding of £5.08 was being held in the cash tin against the recorded cash balance;
- With an intended imprest holding of £200, the manual register of transactions should reflect that value, being an amalgam of the physical cash held and un-reimbursed expenses;
- We have also examined the procedures in place for cashing-up tills at the close of daily trading or, in the case of the reception till, at approximately 4 p.m. daily, with subsequent takings regarded as part of the next day’s trading income. The daily cash takings are securely housed in the General Manager’s safe and passed to the admin office for banking once weekly;
- In reviewing the process, we note that tills are only being cashed-up by one officer, the bar cash-up sheets not being signed by the officer actually recording the detail. We also note that the sheets record cash held net of the till floats with no provision to identify any unders or overs against the “Z” total readings, although they are recorded. We have examined a sample of one week’s records noting that the cash value recorded for each till matches the “Z” totals and, whilst that may be the case, we are doubtful that no errors in change given occur;
- Consequently, we consider and suggest that the cash-up sheets should be redesigned to record the full cash holding at the end of each shift, the float removed leaving the actual cash takings value to be recorded and compared with the “Z” total. The reasons for any variance between the latter two should, wherever practicable, be identified and explained on the cash-up sheet; and
- Best practice also suggests that, at the start of each shift / trading period the opening float in each till should be checked and recorded with the checker signing an appropriate certificate. Similarly, when cash is handed from one officer to another (e.g. weekly takings transferred to the admin office) the cash should be checked by the recipient and officer handing over the cash to confirm its accuracy.

Conclusions and recommendations

As indicated above, we consider that the cashing-up and handling procedures need to be reviewed and strengthened to protect staff in the event of any significant shortfall of cash occurring at any stage of the cashing-up and transfer procedures.

- R7. *Consideration should be given to strengthening the cashing-up and cash handling procedures as detailed in the body of the report to further strengthen them and afford greater protection for officers in the event that any significant shortfall in cash occurs.*
- R8. *The cashing-up sheets should be redesigned to record the total cash held at the close of trading / when tills are cashed-up and identify any variances to the tills "Z" totals, explanations for which should, if significant, be identified and recorded.*

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 requirements of HM Revenue and Customs (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 regards employee contribution bandings. To meet this objective, we have: -

- Reviewed the Council's payroll preparation procedures noting that the Council have outsourced production of the payroll to a local firm of chartered accountants (Stiles & Co);
- Checked to ensure that the Council has reviewed and approved appropriate pay scales for staff, most latterly in April 2017;
- Checked and agreed the amounts paid to individuals by reference to the approved pay rates verifying payments made in December 2017 and Week 40 2017;
- Checked PAYE Tax Codes and National Insurance Rates to ensure that appropriate allowances are being applied for the year following the annual budgetary increases in personal allowances with effect from April 2017;
- Checked Local Government Pension Scheme deduction rates to ensure they are in accord with the revisions to the bases of employee contributions, most latterly with effect from 1st April 2017 (albeit relatively minor changes to the salary banding widths) but did not, at this visit, test the Scottish Widow's pension scheme deduction rates;
- Verified variable hours and expenses to individuals' timesheets and claim forms;
- Checked and agreed the net pay computations on pay slips to the payroll summaries and resultant bank statement and cashbook transactions; and
- Ensured that the appropriate month's deductions and contributions have been paid over to HMRC and the County Pension Fund in a timely manner.

Ordinarily, we would also verify the monthly return submissions to HMRC in accord with extant legislation (aka Real Time Initiative) but, in the absence of anything to the contrary, must assume this being done properly by the bureau provider.

Conclusions and recommendation

As discussed with the Clerk during the course of the previous interim visit, we noted that the two employees who are long-standing members of the local government pension scheme appeared to be suffering excess income tax deductions due to their pension contributions not being subtracted from gross pay prior, as is the “norm”. We did not test the application of the Scottish Widows contributions for other employees as we were verbally advised that their entitlement to tax relief was being computed by the pension provider “at source” instead of via the payroll. It was agreed that this would be reviewed as soon as practicable because the matter could involve prior year (s) and the amounts involved were in the region of £30 per person per month.

R9. The apparent over-deductions of income tax arising from the failure to subtract LGPS contributions prior to computation should be reviewed with the bureau provider as soon as practicable, and, if agreed, necessary calculations of rebates and repayments to be actioned accordingly. Agreed and Stiles were contacted immediately after the interim visit and, at the time of this final visit, were still working on the resolution of the matter, and that below, which officers were currently chasing up.

R10. Whilst not directly arising from our sample testing, we would suggest that the bureau provider’s computation of national insurance deductions for 2015-16 and earlier be checked to ensure that the two employees were also being given relief for the lower rate of contributions (aka Table D at 9.4%) applicable to LGPS members prior to the government’s abolition of same with effect from April 2016. As above

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 pleased to note compliance with the previous revisions in accounting practice requiring asset values to be disclosed in the Annual Return at purchase cost or, where that value is unknown, the best approximation to that value and that 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. A comprehensive register remains in place with only limited movement in the year for occasional acquisitions and disposals and, consequently, we have checked and agreed the values recorded at Box 9, Page 5 of the revised AGAR to the supporting registers at cost.

Conclusions

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

Investments and Loans

The Council has “invested” surplus funds in the CCLA Public Sector Deposit Fund with monthly dividends added to the account as advised to the Council routinely. We did not undertake any further work in this area other than to verify one sample month’s transactions

at the first visit but have, subsequently at this final visit, verified all monthly receipts and the disclosure of the closing balance as at 31st March 2018 in the Statement of Accounts to their third party statements.

The Council has three loans in place repayable at half-yearly intervals to the PWLB. We have reviewed payments made throughout the year as part of our aforementioned payment testing with no issues identified and have also verified the disclosure of the residual capital liabilities from their third party statements to that recorded at Box 10, Page 5 of the AGAR.

Conclusions

There are no matters arising in this area to warrant formal comment or recommendation.

Statement of Account and Annual Return

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

We are pleased to note the comprehensive file of working papers prepared by the Clerk and his Finance Officer for this purpose and have checked and agreed the content of the Council's Accounts by reference to the underlying year-end Sage Trial Balance to such workings, also ensuring the accurate transfer of resultant data to Page 5 of the revised AGAR.

Conclusions

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 within the Return.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Council should consider setting a lower limit of £25,000 for formal tender action, bringing it into line with the NALC model Financial Regulations.	This has been actioned as part of the review of SOs and FRs in May 2018.
R2	Detail posted on the Council's website should exclude detail of any officers' or members' signatures to protect against their potential copying and / or fraudulent misuse.	This was actioned with immediate effect following the interim audit in March 2018
Budgetary Control and Reserves		
R3	The Council minutes should identify the actual value of the approved annual precept; that for 2018-19 should be minuted formally at the next full Council meeting.	This was agreed and actioned accordingly in March 2018
Review of Income		
R4	Regular hirers should be required to sign new hire agreements either at the start of each term / hire period or at least once annually.	As per interim audit actions, we feel that new hire agreements should be signed when terms and conditions change, but otherwise we would not insist on new forms.
R5	Where casual bookings are taken by phone or e-mail, hirers should be required to sign a formal agreement form as and when they attend the venue to protect the Council's interests in the event of any damage arising during the hire period.	As per interim audit actions, the form has been amended so that it makes it clear that completion and emailing of the form is taken as acceptance of the terms and conditions of hire, so that a physical signature is not required.
R6	The Council should develop a more equitable approach to the provision of discounted hire rates for regular hirers to ensure greater equanimity of charges levied between the various types of hirer.	The discount rates and framework for offering discounts was discussed and agreed by the Burnham Park Management Committee in April 2018.
Review of Petty Cash and Cash Handling Procedures		
R7	Consideration should be given to strengthening the cashing-up and cash handling procedures as detailed in the body of the report to further strengthen them and afford greater protection for officers in the event that any significant shortfall in cash occurs.	As per interim audit actions, it is not felt practical or possible for cashing up to be carried out by two members of staff, nor would it remove the opportunity for staff dishonesty.
R8	The cashing-up sheets should be redesigned to record the total cash held at the close of trading / when tills are cashed-up and identify any variances to the tills "Z" totals, explanations for which should, if significant, be identified and recorded.	As per the interim audit actions, we confirmed that the cashing up includes the Z reading and all differences between this and the actual cash recorded.

Rec. No.	Recommendation	Response
Review of Staff Salaries		
R9	The apparent over-deductions of income tax arising from the failure to subtract LGPS contributions prior to computation to be reviewed with the bureau provider as soon as practicable, and, if agreed, necessary calculations of rebates and repayments to be actioned accordingly.	Agreed and Stiles were contacted immediately after the interim visit and, at the time of this final visit, were still working on the resolution of this matter, and that below, which officers were currently chasing up
R10	Whilst not directly arising from our sample testing, we would suggest that the bureau provider's computation of national insurance deductions for 2015-16 and earlier be checked to ensure that the two employees were also being given relief for the lower rate of contributions (aka Table D at 9.4%) applicable to LGPS members prior to the government's abolition of same with effect from April 2016.	As above.