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# **Newhaven Town Council**

*Internal Audit Report 2018-19 (Interim)*

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*For and on behalf of*  
*Auditing Solutions Ltd*

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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 Council decision making process from the outset of the revised Regulations, with Auditing Solutions Ltd appointed to undertake the internal audit function on behalf of the Council with effect from 2013-14.

This report sets out those areas examined during the course of our recent interim visit to the Council, which took place on 10<sup>th</sup> January 2019, and will be subject to further update following the final visit on a date yet to be booked subsequent to the year-end closedown and accounts production in May / June 2019.

## **Internal Audit Approach**

In commencing our review for 2018-19, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or mis-representation in the year-end Statement of Accounts, operating a mix of 100% substantive or selected sampling techniques where considered applicable.

## **Overall Conclusion**

We are pleased to record that no significant concerns or issues have been identified during the course of testing undertaken to date this year: consequently, it has not been considered necessary to append an Action Plan of any formal recommendations.

# Detailed Report

## Review of Accounting Arrangements & Bank Reconciliations

Our objective here is to ensure that the Council's accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. As previously, the RFO continues to maintain the accounting records using the Omega software and Current, Business Premium and Base Rate Reward Accounts are in place at Barclays Bank. To that end, we have: -

- Ensured that the financial ledger coding structure remains appropriate and is unchanged compared with the previous year;
- Checked that the closing account balances, as reported in the Statement of Accounts and Annual Return for 2017-18, have been correctly rolled forward as opening balances for 2018-19 in the Omega software;
- Checked and agreed transactions in all three bank account cashbooks to the relevant Barclays bank account statements for two sample months (April and December 2018);
- Checked detail on the software based bank account reconciliations for all three cashbooks as at 30<sup>th</sup> April and 31<sup>st</sup> December 2018 to ensure that no long-standing, uncleared cheques or other anomalous entries exist.

### *Conclusions*

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

## Review of Corporate Governance

Our objective here is to ensure that the Council has robust corporate governance documentation and processes in place, that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we can be reasonably expected to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have to date: -

- Examined the minutes of the Full Council and its Standing Committees' meetings (except Planning) for the municipal year to end December 2018 to ensure that no significant issues affecting the Council's financial stability either in the short, medium or long term exist; and
- Previously noted that the Council's extant Standing Orders and Financial Regulations were appropriately re-affirmed in January 2017 (adopting the revised contract regulations as required) and do not consider that this area needs to be re-visited again currently.

### *Conclusions*

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

## Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and 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;
- An official order has been raised for all purchases and service delivery where one would be expected;
- 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.

We have commenced testing in this area, examining all those payments individually in excess of £3,000, together with a further selection of every 30<sup>th</sup> cashbook transaction (irrespective of value), to 31<sup>st</sup> December 2018. Our sample of approximately 70 payments in all totals just under £220,000 and represents 67% of all non-pay related payments for the year to that date.

We note that electronic VAT recovery claims continue to be submitted on a regular quarterly basis but have not undertaken any further testing in this area at present other than to note that the third quarter's return was duly submitted in accord with the Omega control account balances.

### *Conclusions*

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

## 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. Consequently:

- We have previously noted that members had duly considered, and formally re-affirmed, General Risk Assessment Registers (May 2017) and are pleased to note that further work has subsequently been undertaken in this area with revised financial assessments (utilising the bespoke LCRS software) being adopted in May 2018; and
- We have examined the insurance schedule summary for the current year (to 31<sup>st</sup> May 2019), cover continuing to be provided under a longer term agreement by Aviva, and consider that all areas are currently appropriate for the Council with both Employer's and Public Liability standing at £10 million, Fidelity Guarantee at £500,000 and Loss of Revenue at £63,000.

### *Conclusions*

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

## **Budgetary Control & Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the Borough Council; also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure.

*Other than noting that members are provided with periodic budget monitoring reports at Committee and Council level, no further work was undertaken in this area at the interim stage, which was too early for any formal deliberations to be completed in relation to the budgets and Precept for 2019-20 (due for consideration at the Council meeting later in January 2019).*

## **Review of Income**

Our objective here is to ensure that robust systems are in place to ensure that all income due to the Council is identified and invoiced (where applicable) in a timely manner and that effective procedures are in place to ensure that appropriate recovery is effected within a reasonable time span. Consequently, we have

- As recorded earlier in this resume, checked and agreed two months' cashbook receipts to relevant bank statements on the Current, Premium and Business Reward Deposit accounts;
- Noted previously from our examination of minutes in 2017-18 that members had agreed all the relevant scales of fees and charges for the Cemetery, the Social Centre, Meeching Hall and Allotments for 2018-19 and have obtained copies of same; and
- Undertaken detailed testing of income arising from the Cemetery by reference to a six months' sample (April to September 2018) of burial registers to ensure that each was supported by appropriate legal documentation, that each had been charged the correct fee in accord with the published scales of fees, that invoices had been raised in a timely manner, were properly posted to the Omega income ledgers and settled by Funeral Directors (or family members if applicable) in a timely manner.

### ***Conclusions***

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

## **Petty Cash Account and Corporate Charge Cards**

Whilst the amounts expended in this area are extremely limited, we are charged, as part of the Annual Governance and Accountability Return certification work, with examining the Council's petty cash accounting controls and signing off accordingly in the Return. Our aim is to ensure that appropriate controls are in place, that all expenditure incurred is adequately supported by trade invoices or till receipts, that VAT (where applicable) is separately identified for periodic recovery and that expenditure incurred is appropriate for the Council's needs.

- We have examined the operation of the petty cash account, which is operated on a “top-up as required” and identified in a separate cashbook in the Omega software, by reference to the expenditure transactions in December 2018 with all the above criteria met accordingly.
- We also note that the Council continues to hold a corporate Barclaycard, which has a credit limit of £8,000 and is settled in full every month by direct debit. Whilst there is a relatively high limit, the usage is sparing and primarily for goods and services needed urgently or where electronic payments are now the norm such as Land Registry searches. We have checked and agreed a monthly settlement transaction (in September 2018) to the supporting invoices and receipts as part of the higher value supplier payments testing noted earlier in this report.

### ***Conclusions***

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

## **Salaries and Wages**

In examining the Council’s payroll function, we aim to ensure that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) in relation to 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 revised with effect from 1<sup>st</sup> April 2018 in relation to staff salary contribution bandings.

To meet these objectives, we have examined the payroll procedures in place and the physical payments made to staff in the current year by reference to the November 2018 payments, noting that the Council continues to outsource the production of its payroll to a local bureau provider (Advo Payroll – the same company as previously but with a new name) for this purpose. Our review has included: -

- Ensuring that the Council had approved employee pay rates for the financial year, noting that the NJC pay award for 2018-19 was duly implemented as required;
- Checking to ensure that appropriate PAYE tax codes and National Insurance tables are being applied for the year, following the annual budgetary increases in personal allowances with effect from April 2018;
- Checking that the correct scales of superannuation deductions, based on the revised LGPS salary bandings (albeit with minimal increases for 2018-19) are being applied where applicable;
- Ensuring that appropriately approved timesheets are submitted by all employees in support of any flexible hours worked and / or claimed as overtime; and
- Verifying detail of the net salary payments by reference to payroll summary reports and the subsequent BACS listings.

### ***Conclusions***

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

## **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 holds no funds in periodic term investments with all monies currently in instant access deposit accounts (which do pay limited rates of interest) at Barclays, detail of which has been tested as noted earlier in this report.
- We have checked and agreed both of the bi-annual PWLB loan instalment repayments (in April and October 2018) from relevant bank statements to their third party “demand” notices as part of the supplier payments testing noted earlier in this report.

### ***Conclusions***

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