



Burghfield Parish Council

Internal Audit Report: 2018-19 (Final Report)

Prepared by Chris Hackett

*For and on behalf of
Auditing Solutions Ltd*

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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 Council decision making process appointing Auditing Solutions Ltd to provide the function to the Council from the outset.

This report sets out those areas examined during the course of our visits to the Council for the year, which took place on 22nd January and 25th April 2019 together with all the preliminary and off site work.

Internal Audit Approach

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential miss-recording or misrepresentation in the year-end Statement of Accounts / Annual Governance and Accountability Return (AGAR). Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that 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. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's AGAR process, which requires independent assurance over ten internal control objectives.

Our reports and file of work undertaken for the year can be made available, on request, to the Council's external auditors should they require further assistance in gaining the required level of assurance on the adequacy of those Council's systems examined and detailed in this final report.

Overall Conclusion

We have concluded that, in the areas examined, the Council has satisfactory arrangements in place, although we made a number of recommendations to strengthen controls particularly around the banking of income and the authorisation of payments.

We have signed the Internal Audit Report in the AGAR following completion of our work.

We would like to thank the Clerk for her assistance in completing our work and request this report is presented to Members.

Detailed Report

Maintenance of Accounting Records & 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. The Council uses the Omega accounting system maintaining three cash books, specifically the current account (cash book one), Village Hall account (cash book two) and the payroll account (cash book three). We have:

- Agreed the opening trial balance detail for 2018-19 with the closing balances in the 2017-18 Statement of Accounts / AGAR;
- Ensured that the cost centre and income & expenditure ledger coding structure remains appropriate for purpose;
- Discussed arrangements for managing the accounting system including those for processing journal adjustments and for backing up the data;
- Run a data check on the year end back up to ensure the system was in balance;
- Noted that the payroll account was set up in November and sample tested transfers between the bank accounts;
- At our interim visit checked detail in the cashbooks, examining transactions in September 2018 for the Omega cash book one and cash book two agreeing transaction in the ledger to the relevant bank statements. We further tested transactions for December 2018 for the cash book one and three from the ledger cash book to the bank statements. The checked and agreed detail on the bank reconciliations for the cash book one and two as at 30th September 2018 and for cash book one and three at 31st December 2018; and
- At our final visit tested for all three cash books the transactions in March 2019 to the bank statements also agreeing the reconciliations at 31st March.

At the time of our visit in January the Clerk had not run the reconciliation report for the new payroll account, (cash book three). We agreed with the Clerk a journal would be done to transfer £18 bank charges on the payroll bank account which had been charged to the current account cash (book one) on the Omega Ledger to cash book three. This would change the balance on cash book three and bring it into line with the bank statement. An erroneous adjustment on the reconciliation for cash book one was to be removed.

We noted an adjustment on the reconciliation for cash book one of £100 relating to the village hall over payment which has been outstanding since September. At the year end this had cleared.

Conclusions

No significant matters arose from our work in the area requiring recommendations.

Review of Corporate Governance

Our objective is to ensure that the Council has a robust series of corporate governance documentation in place; that Council and Committee 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:

- Reviewed the minutes of the Full Council and its Standing Committees (except Infrastructure's planning notes) for the financial year to 31st March 2019 to identify whether or not any issues exist that may have an adverse effect on the Council's future financial stability, either in the short, medium or longer term: we note the discussions regarding the Community Hub including the development of a plan to progress the project;
- We note the Council reviewed its Standing Orders in December 2018 and plans to review its financial regulations in 2019. We note some minor inconsistency between the two documents in relation to the thresholds for public contract regulations which change over time and will be resolved when financial regulations are up-dated again; and
- We note the Council has adopted the General Power of Competence.

Conclusions

No issues have been identified to warrant formal recommendation in this area. We note the intention to review and up-date financial regulations including to ensure consistency with standing orders.

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;
- 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.

In order to ensure compliance with the above criteria we have examined a sample of payments, including all those individually in excess of £1,500, together with a more random sample of every 20th cashbook transaction (irrespective of value), for the year to 31st March

2019. Our test sample comprised 44 items in all, totalling just over £85,185 and representing 41% of all non-pay costs for the year to end of March. We noted invoices from two suppliers which did not contain VAT detail even though the amounts were subject to VAT.

We discussed controls over the authorisation of expenditure with the Clerk. We understand that a list of payments is prepared and circulated prior to Council meetings, the list is included as an agenda item and approved, subsequently two Members go on-line and authorise the payments on the Unity banking system. Control would be improved if the reports showing authorisation of payments are retained in hard copy form on file to provide an audit trail.

The payment listing provided to Members includes direct debit (DD) payments that have come through on the bank but depending on the timing of DD payments not all amounts are always included on the listing. Control would be improved if Members annually approved a listing of all DD payments, the listing could be re-presented annually or when new ones are added.

We reviewed the first quarter's VAT return to the control record confirming the funds had been recovered from HMRC. At our final visit we confirmed VAT returns had been completed and monies recovered from HMRC for quarter two and three.

We reviewed the year end outturn report discussing budget variances with the Clerk.

Conclusions and recommendations

Based on our sample, payments are supported by invoices confirming the amounts incurred.

- R1. The Clerk should obtain invoices from the two suppliers to support the reclaim of VAT.*
- R2. Documentation evidencing member authorisation of the payment run should be retained on file to provide an audit trail of the operation of the control.*
- R3. An annual list of DD payments should be presented to Members for approval, if necessary the list should be represented when items change.*

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 in order to minimise the opportunity for their coming to fruition.

- We note that at the September 2018 meeting of the Governance and Finance Committee, Members reviewed and approved in accordance with the Practitioners' Guide the Council's assessment of financial and operational risks. No further work was felt appropriate by us in this area;
- We note the Council continues to have regular safety inspections of its play areas by ROSPA; and
- We note that the Council's insurance continues to be held with Axa following the review of cover done last year with the Council's insurance broker. Specifically that;

both Public and Employer's Liability cover stands at £10 million, Hirer's Liability at £5m with Fidelity Guarantee cover retained at £400,000. At the time of our visit the total cash and investment balances held by the Council stood at approximately £600,000.

Conclusions and recommendation

The Council continues to monitor its risk and maintain suitable insurance cover. Given the level of balances held by the Council it would be good practice to monitor the level of fidelity guarantee cover held.

R4. In line with good practice the Council should consider the need to ensure fidelity guarantee insurance cover is in line with its cash holdings.

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 District 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 that might arise.

- We are pleased to note that members are provided with regular (generally monthly) I&E budget monitoring reports;
- We note that detailed discussions are held in preparation for the setting of the precept including consideration of the impact of one-off projects and the suitable level of reserves; and
- We have reviewed your level of reserves at 31st March 2019 noting that some are held in respect of restricted S106 and CIL and earmarked reserves.

Conclusions

Based on our work to date no issues have been identified to warrant formal recommendation in this area.

Review of Income

In addition to the precept, the Council's principal sources of income arise from its Village Hall lettings together with Allotment rentals, bank interest and sundry grants and donations and income from burials.

- We are pleased to note that members continue to review and approve the scales of fees and charges;
- We have agreed receipt of the annual precept into the Council's Cash book by reference to the minute approving the set precept;
- We have reviewed Allotment income by reference to the electronic Register agreeing the income due the accounts. We also noted there were no significant amounts

outstanding. Total rents paid per the Allotments register totalled £2,120 with £115 outstanding as due from eight allotment holders. Income banked totalled £2,109 with one small amount to be cleared. We note that many allotment holders pay in cash, although officers are encouraging payment on-line. We understand that the Unity Bank facilitates only on-line payments presenting difficulties when cash is received. (Last year we understand a card was supplied by the bank, but we understand the Officers had difficulty tracking transactions). This year we understand the Clerk paid income of £551 into her bank account before then transferring the income to the Council's account on January 21st, this was posted to the Cash Book on 21st January 2019. We accept the difficulties and also note there can be timing issues if a special trip has to be made to find another way of banking the money, but income should be banked directly into the Council's accounts;

- We note that the Council has set out rules governing the way allotment holders are required to look after their plots. At other Council's it is common for allotment holders to sign to acknowledge their acceptance of the terms and conditions under which they hold the allotment when making the annual payment.
- We have sample tested income arising on Burials confirming suitable documentation is held, the rate charged and that there was an entry in the electronic Burial Register;
- We reviewed the aged debt report on the Sales Ledger, which covers bookings noting that the total outstanding was £2,161 with £1,727 more than 60 days old at the time of interim visit. At the time of our final visit the balance on unpaid invoices had reduced to £1,142.50; and
- Additionally we have, as noted earlier in this report, verified three sample months' receipts from cashbooks to bank statements.

Conclusions and recommendations

The Council needs to ensure it has arrangements in place to bank income promptly and directly into its own accounts.

- R5. *The Clerk should arrange for all cash income to be banked directly into an account held in the name of the Council. Either through the use of one of the existing accounts, for example Unity may be able to offer some further arrangement or setting up another account specifically to bank income.*
- R6. *Allotment holders should sign an agreement when taking on the plot for the first time acknowledging the terms under which the allotment is held.*
- R7. *The aged debtors report should periodically be reviewed by Members.*

Petty Cash Account

The Council does not operate a petty cash account, any out-of-pocket expenses incurred by the Clerk or her staff being reimbursed as required by approved and supported transfers in the same manner as all other supplier payments.

Review of Salaries

In examining the Council's payroll function, we aim to confirm 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) 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 most recently further updated with effect from 1st April 2017 in relation to salary bandings. We note the Council uses HMRC software to process its payroll with the total pay costs each month reported to Members. To meet our audit objectives, we have:

- Reviewed pay for February as a sample month confirming the calculation of PAYE and NI on a sample basis;
- Confirmed the deduction of employee pension contributions
- Confirmed the payment of sums due to HMRC and the Pension Administrator; and
- Confirmed records are kept of staff hours where this is necessary.

Conclusions

No issues have been identified to warrant formal recommendation in this area.

Asset Register / Inventory

The “Governance and Accountability Manual – The Practitioner’s Guide”, requires all councils to maintain a detailed register of their assets. We aim in examining this aspect of the Council’s documentation to ensure that the Council has complied with that legislation; that an appropriate and comprehensive register is being maintained and that it is subject to periodic review and update.

We note the existence of the Register, including photographic evidence and that the Clerk has compiled the schedule of values in accordance with the guidance. We note that it is increased in the year in line with the cost of acquisitions. The balance at 31st March 2019 is £1,318,016. We note the amount reported in line 9 of the AGAR is £1,274,388. The difference may be disposals not included in the asset register provided at the time of the audit.

Conclusions and recommendation

The Council is maintaining an asset register, although is quoting a different amount in the AGAR.

R8. The Council should confirm the amount reported in the AGAR for fixed assets is correct.

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 repayable by the Council are transacted in accordance with appropriate loan agreements. We note:

- That the Council holds funds on deposit: we have agreed the sums held at the Nationwide Building society, the Unity deposit account and the Newbury Building society to year end statements. We note the 2018/19 interest has not been added to the balances at 31st March 2019 as showing on the Annual Return specifically

Newbury statement balance £102,263; AGAR line 8 £101,720
 Nationwide statement balance £130,267; AGAR line 8 £130,088
 Unity statement balance £228,539; AGAR line 8 £227,441

- Where Parish Councils hold investments in excess of £100,000 it is now a requirement that they develop an investment policy and strategy to support their investment decisions, this Council holds investments in excess of £100,000; and
- That the Council currently holds no loans, although is considering one in connection with the construction of the Community Hub.

Conclusion and recommendations

We have agreed the year end investments to third party statements, although the interest has not been added to the values recorded in Omega, this may be because the interest was paid after 31st March and it was decided not to accrue. The Council does not have an investment policy and strategy.

R9. The Council should ensure the interest accruing on the investment balances is brought to account and the year end balances on Omega agree to the statement.

R10. The Council should adopt an investment policy and strategy.

Statement of Account and Annual Return

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

The figures for page 5 of the AGAR are generated automatically from the Omega system. We have reviewed the detail supporting the AGAR on Omega prior to amounts being transferred on to page 5 of the AGAR. We note page 5 line 4 includes currently cleaning contract costs and line 6 includes travel and subsistence. The governance and accountability manual guidance on what to include in line 4 is:

'This cell shows all the costs incurred by the authority in relation to the employment of its staff. It includes employment expenses which are benefits (for example, mileage and travel expenses) but it does not include payments made in respect of office expenses reimbursed to employees or the costs of engaging agency staff or consultants (these expenses form part of the amount shown in Line 6). Where the authority makes deductions for PAYE and National Insurance, and pays employer's contributions for NI and pensions, then staff costs should include payments to HM Revenue and Customs and any pension contributions.

It is possible the travel costs, staff expenses and contract costs may have been correctly coded on the AGAR depending on the underlying substance of the costs.

We note a small difference between the balance on cash book one which we audited in April during our visit on April 25th compared to the balance on the account now, although the amount is not material being £53.30.

Conclusions and recommendation

We have reviewed the AGAR and recommend some items are checked before submission. As noted in the preamble to this report, we have duly signed off the Internal Audit Report at Page 3 of the AGAR, assigning positive assurances in all relevant categories.

R11. Officers should check the amounts included in respect of staff at line 4 and line 5 accord with the governance and accountability manual guidance.

Rec. No.	Recommendations made during the Interim Audit	Response
Review of Expenditure		
R1	The Clerk should obtain invoices from the two suppliers to support the reclaim of VAT.	<i>Clerk confirmed this will be done.</i>
R2	Documentation evidencing member authorisation of the payment run should be retained on file to provide an audit trail of the operation of the control.	<i>Clerk confirmed this will be done going forward.</i>
R3	An annual list of DD payments should be presented to Members for approval, if necessary the list should be represented when items change.	<i>Went to Governance and Finance Committee on 7th February 2019</i>
Assessment and management of risk		
R4	In line with good practice the Council should consider the need to ensure fidelity guarantee insurance cover is in line with its cash holdings.	<i>Clerk confirmed this will be addressed when the insurance is renewed in June 2019.</i>
Review of income		
R5	The Clerk should arrange for all cash income to be banked directly into an account held in the name of the Council. Either through the use of one of the existing accounts, for example Unity may be able to offer some further arrangement or setting up another account specifically to bank income.	<i>We understand from the Clerk that he bank has provided the Clerk with a means of banking the cash receipts through the post office.</i>
R6	Allotment holders should sign an agreement when taking on the plot for the first time acknowledging the terms under which the allotment is held.	<i>Clerk confirmed this has been done.</i>
R7	The aged debtors report should periodically be reviewed by Members.	<i>Clerk confirmed this has now been done.</i>
Asset Register/Inventory		
R8	The Council should confirm the amount reported in the AGAR for fixed assets is correct.	
Investments and Loans		
R9	The Council should ensure the interest accruing on the investment balances is brought to account and the year end balances on Omega agree to the statement.	
R10	The Council should adopt an investment policy and strategy.	
Statement of accounts and annual return		
R11	Officers should check the amounts included in respect of staff at line 4 and line 5 accord with the governance and accountability manual guidance.	