



Burghfield Parish Council

Internal Audit Report: 2019-20 (Final)

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*For and on behalf of
Auditing Solutions Ltd*

Background and Scope

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2019-20 financial year, during our initial visit to the Council, which took place on 13th November 2019. Due to the impact of the Covid-19 pandemic, we have undertaken our final review for the year remotely: we wish to thank the Clerk for assisting the process, providing all necessary additional (to that examined at our interim visit) documentation in electronic format to facilitate completion of our review. We have, obviously in the circumstances, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

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 / AGAR. Our programme of cover is designed to afford appropriate assurance that the Council has 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' which is part of the Council's AGAR process and requires independent assurance on eleven 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 report.

Overall Conclusion

Based on the work completed, the Council operates effective systems to ensure that transactions are free from material misstatement and will be reported accurately in the AGAR for the financial year. We have signed the Internal Audit Certificate in the AGAR assigning positive assurance on the control objectives.

We ask that Members consider the content of this report and acknowledge that the report has been reviewed by Council.

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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:

- Reviewed the opening trial balance detail for 2019-20 comparing it to the closing balances in the 2018-19 Statement of Accounts / AGAR to ensure that all key balances have been brought forward;
- Reviewed the External Auditors Report for 2018/19 for any matters that might require follow up by us;
- Ensured that the cost centre and income & expenditure ledger coding structure remains appropriate for purpose;
- Confirmed the Ledger was in balance at the year-end by running a data check to confirm the trial balance agreed to the nominal ledger;
- Discussed arrangements for managing the accounting system including those for processing journal adjustments and for backing-up the data;
- Checked the bank reconciliations at 30th September, 31st October 2019 and 29th February and 31st March 2020 as sample months for all three cash books to the supporting records; and
- Agreed the transactions in the two cash books for October and March to the bank statements agreeing the year end reconciliations.

Conclusion

The Council is completing reconciliations of the accounts and maintaining its Ledger. There are no matters arising in this area of our review 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:

- Review the minutes of the Full Council and its Standing Committees (except the Infrastructure's Committee which relates to planning) as posted on the Council website at the time of our year-end work, 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 that the Governance and Finance Committee reviewed standing orders and financial regulations at their meeting in November 2019. These were then approved at full Council in January 2020;
- We confirmed the prior year (2018/19) accounts audit was advertised to the public, (this is a new regulatory requirement for the internal auditor to perform this year); and
- We note the Council has adopted the General Power of Competence.

Conclusions

No issues have been identified in this area to warrant formal comment or recommendations.

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, at our interim visit, we 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 October 2019. Our test sample comprised 20 items in all, totalling just over £35,633 and representing 61% of all non-pay costs for the year to the end of October. We noted one invoice from Pitney Bowes for £1,000 was not available at the time, this related to the cost of franking postages. This is because the Council has to load the franking machine by paying in advance, then Pitney Bowes generate an invoice on their system. The Pitney Bowes system had not been updated for September at the time of our interim visit. We agreed payments to Pitney Bowes to the bank statements showing the payee.

At our final review we selected a random sample of payments from the Parish Council and Village Hall Cash Books covering the period November 2019 to March 2020. Our sample included 18 payments consisting of 25 invoices and totalled £85,654. All payments were supported by invoices.

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 online and authorise the payments on the Unity banking system.

At our initial visit we reviewed the first two quarter's VAT returns to the control record confirming the funds had been recovered from HMRC in respect of the first one. The second return was submitted in October and refund from HMRC was pending at the time of our visit.

At our final review we confirmed receipt of the second reclaim and agreed detail of the third and fourth reclaims to the accounting records, confirming receipt of the third quarter to the Cash Book and ensuring the fourth quarter was included in the year-end debtors.

We reviewed the year end budget report in Rialtas comparing expenditure for the whole year against budget.

Conclusions

Based on our audit samples, payments are supported by invoices confirming the amounts incurred. There are no matters requiring 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 in order to minimise the opportunity for their coming to fruition. We have:

- Noted that at the September 2019 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;
- Noted the Council continues to have regular safety inspections of its play areas by ROSPA; and
- Noted that the Council's insurance continues to be held with Axa, 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 interim visit the total cash and investment balances held by the Council stood at approximately £750,000.

Conclusions and recommendation

The Council continues to monitor its risks. Given the level of balances held by the Council it would be good practice to increase the level of fidelity guarantee cover held.

R1. In line with good practice the Council should consider the need to ensure fidelity guarantee insurance cover is in line with its cash holdings. (This has now been done).

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 continue to be provided with regular Income & Expenditure budget monitoring reports.

We note the Council went through a formal process for setting the budget for 2020/21 with the Governance and Finance Committee first considering draft budget proposals at their meeting in November with Full Council approving the budget and setting the coming year's precept at the meeting in January 2020. Full Council considered capital projects and use of reserves in setting the budget.

The Council has budgeted to spend £295,000 in 2020/21. Balances are sufficient in the context of the Council's on-going spending with the general fund balance (£204,000) representing some 8 months spending at current levels. (The normal expected range is for the General Fund to represent some 3-6 months spending).

Conclusion

No issues have been identified in this area warranting formal comment or recommendation.

Review of Income

In addition to the precept, the Council collects income from its village hall lettings, allotment rentals and burials and receives bank interest and sundry grants and donations.

As part of our audit we have:

- Reviewed burial records. We note that in the financial year to the date of our interim visit there had only been one interment and one payment for a memorial. We agreed the amounts charged to the scale of fees and confirmed paperwork was held including the Coroner's certificate authorising interment;
- Sample checked the income collected from village hall bookings. We obtained a printout from the letting diary for September 2019 and sample checked the bookings ensuring the event had been invoiced and at the correct rate agreeing the entries to the accounts;
- Agreed the precept from the amount recorded as agreed in the minutes to the amounts receipted in the Cash Book;
- Sample checked two month's income from the bank statements to the cash books;
- Noted that burial fees and charges were reviewed during the year; and
- Reviewed the unpaid balances report on the sales ledger at the time of our interim visit and final visit.

Conclusion

No issues have been identified from our work in this area requiring formal comment or recommendation.

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 cost each month reported to Members. To meet our audit objectives, we have:

- Reviewed pay for September 2019, 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;
- Confirmed records are kept of staff hours where this is necessary; and
- Completed a trend analysis comparing monthly payroll costs as recorded in the Cash Book for any unexpected variations.

Conclusions

No issues have been identified to warrant formal comment or 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 covering the different categories of assets held by the Council. We reviewed movements in the year, acquisitions and disposals, by reference to the Rialtas ledger. We note items are recorded at cost as required by the regulations.

Conclusions

The Council is maintaining an asset register.

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 and the Unity Deposit Account to statements dated 30th September 2019 and at 31st March 2020. We note the Newbury Building Society issue annual statements and we agreed the year-end balance 31st March 2020 to correspondence;
- Last year we recommended the Council develop an investment strategy. We note that DCK have been engaged to help the Council in this; and
- That the Council currently holds no loans.

Conclusions

No issues arise in this area of our review requiring formal comment or recommendation.

Statement of Accounts and AGAR

The Accounts and Audit Regulations require all Councils to prepare summary accounts which are reported in the AGAR. Burghfield also engages contract accounts to prepare a detailed Statement of Accounts identifying aspects of the Council’s financial affairs.

At the time of our main year-end review (13th May 2020) the year-end accounts and AGAR had not been completed. The accounts were provided on May 31st 2020. We have reviewed the accounts test checking them to the detailed accounting system (Rialtas Omega Ledger).

We identified some minor differences between the amount stated for fixed assets and capital additions in the Statement of Accounts compared to the amounts in the fixed asset register and expenditure in Rialtas, however, these differences are considered trivial (some £3,000) given total fixed assets of £1.350million.

Conclusions

There are no matters arising from this area of our work requiring formal comment or recommendation and we have duly signed off the Internal Audit section of the AGAR assigning positive assurance against the control objectives.

Rec. No.	Recommendations made during the Interim Audit	Response
Assessment and management of risk		
R1	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>Cover has been increased to £750,000.</i>