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Dear Greg

Billingshurst Parish Council - Internal Audit 2018-19

The internal audit of Billingshurst Parish Council for the 2018-19 financial year is now complete. I am pleased to be able to report that I have signed off the attached internal audit report for 2018-19 with no comments.

As stated in the engagement letter, the scope of my work is limited to completing the audit testing and enquiries I deem necessary to complete Section 4 of the Annual Report for Local Councils in England. I do not provide assurance over or accept responsibility for areas of work not included in this scope, unless specifically agreed with the Council in the course of the financial year.

In providing internal audit services I am not conducting a financial statement audit in accordance with standards and guidelines issued by the Audit Practices Board and my procedures are not designed to provide assurance over the reliability and quality of your financial statements and management information.

I am required by the Annual Internal Audit Report included in the Annual Governance and Accountability Return (AGAR) to review controls in place at the Council against predefined control assertions. These control assertions are set out below, together with the results of my internal audit work for 2018-19, which was carried out at two visits. My first visit on 19 November 2018 concentrated on in year financial transactions and governance controls. At my second visit on 29 May 2019, I reviewed the statement of accounts and balance sheet and transactions in final quarter of the financial year.

I also set out a detailed schedule of recommendations for consideration by Councillors at Appendix A to this letter.

A - Appropriate books of account have been kept properly throughout the year

Interim Audit

The Council has moved its books of account on to the RBS accounting system from 1.4.18. RBS is an industry specific accounting solution well suited to this Council. This has significantly improved the audit trail for transactions on the accounting system, and simplified accounting arrangements at the Council. The new system is working well, and I was able to confirm that:

- Supporting documentation could be located using referencing on RBS
- All reconciliations tested are working well
- Council is making use of the reporting available in RBS to improve financial reports available to councillors.

I confirmed that the opening balances on RBS at 1.4.18, as recorded on the opening balance sheet, could be agreed back to the audited annual return for 2017-18. I also confirmed that the Council had met legal obligations and loaded the relevant sections of the annual return, external audit certificate and conclusion of audit notification to its website.

I checked that internal and external audit reports had been considered at meetings of the Council.

I reviewed the Council's VAT records and checked that the VAT return had been submitted to HMRC for the period to 30 September 2018, and that the VAT reclaimed could be agreed to a schedule of transactions recorded on RBS. I note that the Council is currently working to separate its VAT return from that of the Community Centre.

I am satisfied that the Council is meeting this control objective.

Final Audit

I confirmed that the Council received a clear audit opinion in 2017-18 and that there are no matters to be taken into consideration in 2018-19 financial reporting. I checked that the accounts cast correctly, and that comparative figures could be agreed to the audited 2017-18 accounts. I reviewed the draft annual return and agreed balances in the annual return back to the RBS accounting system.

The year-end VAT return had been completed to 31.3.19. I note that VAT is now separate from that of the Billingshurst Centre. I confirmed that VAT returns are up to date and the submission certificate retained. VAT reclaimed has been agreed to a schedule of transactions produced by the RBS system.

I am satisfied that this control objective has been met, and that figures in the annual return can be agreed back to the Council's accounting system.

B - The Council's financial regulations have been met, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for

Interim Audit

The Financial Regulations are due for review and are to be considered at the January 2019 meeting of the Council. Standing orders were reviewed and approved at the Full Council meeting of September 2018.

I confirmed by sample testing that acceptance of office forms are being properly completed by councillors.

The Council approves expenditure via the annual budget process. Each month, the Council records the future expenditure to be made in the minutes of a council meeting, supported

by a detailed list of payments. 2 councillor signatures are then required on the physical payment. This is a strong system, compliant with financial regulations.

I tested a sample of expenditure transactions and was able to confirm the following for all transactions sampled:

- Cashbook entry could be agreed back to an invoice from the supplier
- VAT accounting correct
- Approval for the payment was recorded in a minute of a council meeting
- Signature of two councillors was viewed on each invoice tested.
- 2 councillor signatures witnessed on cheque stubs.

I recommend that the Council moves forward with its plans to make payments electronically. Cheques are not secure, and are frequently lost by suppliers, and the closure of local banks is likely to make cheques less attractive to many suppliers in the near future. This will require the Clerk to work with Councillors to develop a system that operates effectively, but that is also compliant with financial regulations.

As a larger Council, Billingshurst is required to follow the 2015 Transparency Code. Whilst I am satisfied that the Council is largely compliant with requirements of the Code, it is recommended that a “transparency” tab is added to the website, and all necessary information loaded under this tab. I suggest Crowborough Town council as a good model to follow in this area.

Final Audit

Other expenditure per box 6 to the accounts is £269,926 (2017-18 £226,209).

I selected a further sample of transactions from the second half of the financial year. For all transactions tested, I was able to confirm the following:

- Cashbook entry could be agreed back to an invoice from the supplier
- VAT accounting correct
- Approval for the payment was recorded in a minute of a council meeting
- Signature of two councillors was viewed on each invoice tested.
- 2 councillor signatures witnessed on cheque stubs

The Council has a clear system for the authorisation of payments. I am satisfied that financial regulations were followed for all transactions tested. I am pleased to see that the Council will move to using electronic banking for payments in 2019-20.

The Council has a new website, and publishes information required by the Transparency Code on the Finance tab. I checked that expenditure and grant data was up to date to the end of the financial year. Other information required by the Code appeared to be complete, with one exception, information relating to contracts. I recommend that the Council reviews reporting requirements relating to contracts in the course of 2019-20, and adds the necessary information to the website.

I am satisfied that the Council is meeting this control objective.

C - The Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

Interim Audit

I have confirmed that the Council has a comprehensive risk management process in place which results in a formal risk assessment that is approved at the January Full Council meeting. I remind the Council that the risk assessment must be reviewed at a Full Council meeting before March 31st, and the review evidenced by a minute of the Full Council. I will review the risk assessment at my year end visit.

The Council is insured by Avivia, on a standard local council policy. This is a one-year extension to an existing three-year deal. I reviewed the insurance certificate and confirmed it is in date with an expiry date of October 2019. I note that the policy is a joint policy, which also covers the Billingham Community and Conference Centre. I have reviewed the policy and it appears that asset coverage is adequate. 7 buildings are insured, with a total insured value of £4.3 million, which is largely made up of the Community Centre. This is consistent with the asset register. With an asset base as high as this it is important that insurance coverage is reviewed regularly to ensure replacement costs of key assets are reflected in the insurance policy. I note from discussions with the clerk that there has been no review of insurance valuations for its buildings for several years. I recommend that the Council considers an independent review of rebuild costs.

I have confirmed that the Council backs up computer data to a cloned server in the Community Centre, and to a cloud-based solution hosted by an external provider. I have one minor recommendation. Back up should be tested remotely on an annual basis to ensure key information and software can be accessed from back - ups. This is an outstanding recommendation from my last audit.

I am satisfied that the Council is meeting this control objective.

Final Audit

I reviewed recommendations raised at my interim audit and I find that the Council has responded well to these recommendations, responses are set out in Appendix A below.

The Council considered the risk assessment at the Full Council meeting in January 2019. I sample checked the risk assessment and was able to confirm it has been kept up to date, for example information on insurance had been brought up to date.

I note that Council engaged valuers to review insurance cover for Council fixed assets – this confirmed that insurance value is sufficient.

D: Budget, Precept and Reserves

Interim Audit

I have confirmed with the Clerk that budget preparation for 2019-20 is well underway. A budget workshop is to be held in mid-November in order to prepare the first iteration of the budget for Council review. Budget will be taken to the December Finance and General Purpose Committee (F&GP), with precept and budget approval planned for the January meeting of Full Council.

I confirmed that budget monitoring reports were presented to F&GP at the end of quarter 2, as required by financial regulations. The budget review was clearly noted in minutes. I was pleased to see reports coming direct from RBS accounting system, this should produce more efficient financial reporting for the Council.

I note from my review of the actual against budget report that the clerk has made a number of transfers from reserves to set against overspend on budgets. Whilst this shows active monitoring of budgets, I recommend that a virement procedure is set up at the council. Any planned changes to budgets should be approved by Council, and once the approval has been made, budgets changed on the accounting system, with funding to come from general or earmarked reserves.

I will carry out a detailed review of reserves at year end. However, I note that there were a small number of reserves with negative balances at the time of my audit, these should be brought back to zero and closed prior to financial year end.

I am satisfied that this control objective has been met

Final Audit

Council reserves per box 7 at 31.3.19 were £409,175 (2017-18 £435,392). General reserves were £193K, which is 57% of precept. This is an appropriate level of general reserves.

The Council has a detailed schedule of earmarked reserves, which are used to fund long term projects and contingency items. I reviewed the year end reserves position and I can confirm that all reserves are held appropriately. I note that 2 reserves are in deficit at year end

Reserve	Deficit Balance at 31.3.19 (£)
Lower Station Road Rec	12,910
Trim Trail Resurfacing	13,290

I understand that the Council is due to receive section 106 income in 2019-20, this will be transferred to these reserves from the general fund after the receipt has been banked, bringing the reserves back to equilibrium.

The 2019-20 budget was finalised at the 9 January 2019 Full Council meeting and properly minuted. Precept and budget were both clearly approved in the minutes. The Council is

making good use of the RBS system for the budget setting process, this should make budget setting more efficient going forward.

I also note that the Council has continued to review budget v actual reports at Full Council meetings in the second half of the financial year, and that evidence of this review is minuted. The year-end budget v actual report has been prepared and was due to be discussed at the May meeting of Finance and General Purposes Committee.

I am satisfied that this control objective has been met.

E - Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.

Final Audit

Precept per box 2 to the accounts is £335,932 (2017-18 £258,408). Precept was agreed into Horsham DC website

Other Income per box 3 to the accounts is £77,321 (2017-18 £121,328).

I was able to confirm £27K insurance income to third party confirmation from Aviva insurance. £22K Horsham DC grant income for street cleansing was agreed to a grant notification letter.

I am satisfied that this control objective has been met.

F - Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.

The Council holds a small petty cash balance of £100. I confirmed that petty cash is counted and reconciled periodically.

G- Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.

Interim Audit

Payroll is processed by West Sussex County Council. I selected a sample of payroll transactions October 2018 transactions recorded in the General ledger. I tested that:

- general ledger could be agreed back to payroll documentation from WSCC
- payroll invoice had been signed off by 2 councillors
- rate of pay for staff correct – Pay per the WSCC payroll report was checked back to salaries approved by staffing committee.

Final Audit

Staff costs per box 4 to the accounts are £149,288 (2017-18 £144,163)

No additional testing completed at this stage, I rely on testing completed at interim audit.

I am satisfied that this staff costs in box 4 are fairly stated

H - Asset and investments registers were complete and accurate and properly maintained.

Final Audit

Fixed assets per box 9 were £1,461,720 (2017-18 £1,452,972). I have been able to reconcile the balance in the accounts back to the fixed asset register, which was approved by Council in January 2019. I have confirmed with the Clerk that no items were purchased subsequent to this date needing to be added to the asset register, a scan review of the cashbook confirmed this. Change in asset values have been identified, a sample check confirms assets have been added at cost.

I note that replacement work on the Manor Fields playground has been completed in April / May 2019. The Council will need to remove the old equipment from the asset register and add the new equipment at cost before financial year end 2019-20.

I am satisfied that this control objective has been met.

I – Periodic and year-end bank account reconciliations were properly carried out.

Interim Audit

The Council holds 3 bank accounts. I confirmed that reconciliations are completed monthly for all accounts. I reformed the bank reconciliations for October 2018 for all bank accounts and in all cases I found that the bank reconciliations had been properly prepared and were supported by bank statements and cashbooks. All reconciliations had been subject to Councillor review evidenced on the reconciliation and bank statements and had been reported at a Council meeting.

I have one recommendation. All Council cash is currently held in one bank account. I understand this is under review at present, but the Council should consider diversifying risk by holding monies in more than one financial institution.

I am satisfied that this control objective has been met.

Final audit

Cash per box 8 is £387,437 (2017-18 £409,033)

I reformed the March 2019 bank reconciliation and was able to agree figures in the reconciliation back to cashbooks and bank statements. The bank reconciliation had not been signed off as reviewed at the time of my audit, this will be done at the May F&GP Committee meeting. I confirmed a high value cheque included in the unpresented cheque listing had been presented at bank in April 2019.

I am pleased to report that the Council has approved an investment strategy, and is currently looking into alternative locations for investment of Council cash balances.

Loans outstanding per box 10 £ 137,507 (2017-18 £149,783).

This has been agreed to year end loan data published on the PWLB website.

I am satisfied that box 8 and 10 to the accounts are fairly stated.

J - Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and

The Council has compiled accounts on accruals basis, as required by regulation.

I confirmed that the Council has completed a reconciliation between box 7 and 8 of the accounts and that this is supported by schedules of debtors and creditors. I have not audited these figures in detail, this is covered by external audit in their review of the accounting statements. A year on year variance report has not yet been produced and this but this will be completed.

I am satisfied that this control objective has been met.

K - Trust funds (including charitable) The council met its responsibilities as a trustee.

The Billingshurst Community and Conference Centre is a charitable trust of which the Parish Council is the sole managing trustee. I confirmed the 2017-18 return had been submitted to the Charity Commission.

L: PUBLIC INSPECTION

The accounts will be approved at an extraordinary meeting of the Full Council before 30 June – date was not confirmed at the time of my audit. I advised Clerk to be careful with setting public inspection dates, template dates supplied by external audit will meet regulatory requirements.

I would like to thank you for your assistance with the audit. I will send my invoice to you separately.

Yours sincerely

M Platten

Mike Platten CPFA

Points Forward – Action Plan - Interim Audit

Matter Arising	Recommendation	Council Response
I have confirmed that the Council backs up computer data to a cloned server in the Community Centre, and to a cloud-based solution hosted by an external provider	Back up should be tested remotely on an annual basis to ensure key information and software can be accessed from back - ups. This is an outstanding recommendation from my last audit.	To be completed in 2019-20
Buildings insured amount to £4.3 million replacement cost	With an asset base as high as this it is important that insurance coverage is reviewed regularly to ensure replacement costs of key assets are reflected in the insurance policy. This may require a periodic reassessment of the rebuild cost for the Community Centre.	Surveyors confirmed values below insurance level, council resolved to maintain current insurance levels.
I recommend that the Council moves forward with its plans to make payments electronically. Cheques are not secure, and are frequently lost, and the closure of local banks is likely to make cheques less attractive to many suppliers in the near future.	This will require the Clerk to work with Councillors to develop a system that operates effectively, but that is also compliant with financial regulations.	This will start with the Centre, move to Council in the course of this financial year.
I am satisfied that the Council is largely compliant with requirements of the Transparency Code,.	It is recommended that a “transparency” tab is added to the website, and all necessary information loaded under this tab. I suggest Crowborough Town council as a good model to follow in this area.	New website went live in May 2018, finance information is all in one place.
I note from my review of the actual against budget report that the clerk has made a number of transfers from reserves to set against overspend on budgets.	Whilst this shows active monitoring of budgets, I recommend that a virement procedure is set up at the council. Any planned changes to budgets should be	RBS confirmed Council ids following right procedure.

	approved by council, and once the approval has been made, budgets changed on the accounting system, with funding to come from general or earmarked reserves.	
I note that there were a small number of reserves with negative balances at the time of my audit	These should be brought back to zero and closed prior to financial year end.	Year end check.
All Council cash is currently held in one bank account. I understand this is under review at present,	The Council should consider diversifying risk by holding monies in more than one financial institution	Under review, new investment strategy records this.

Points Forward – Action Plan - Final Audit

Matter Arising	Recommendation	Council Response
Other information required by the Code appeared to be published, with one exception, information relating to contracts	I recommend that the Council reviews reporting requirements relating to contracts in the course of 2019-20 and that this is published.	