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12 June 2020

Dear Greg

**Billingshurst Parish Council - Internal Audit 2019-20**

The internal audit of Billingshurst Parish Council for the 2019-20 financial year is now complete. As set out in section L of this report I must qualify the internal audit report as follows:

**The Council has not met the requirements of control objective L: Exercise of public rights to inspect the accounts. The inspection period for 2018-19 accounts was not set at the correct length.**

**The Council should also mark box 4 of the Annual Governance Statement as 'NO'.** A separate sheet should also be prepared for the external auditors setting out the weakness identified and a description of steps in place to rectify the problem. This should be published alongside the AGAR when the Council sets the inspection period.

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

In providing internal audit services we are not conducting a financial statement audit in accordance with standards and guidelines issued by the Audit Practices Board and our procedures are not designed to provide assurance over the reliability and quality of your financial statements and management information – that is the job of external audit.

We are 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 2019-20.

The audit was carried out in two stages. The interim audit visit on 7 November 2019 concentrated on in year financial transactions and governance controls. The final audit was carried out remotely, due to Covid 19 restrictions. This work was completed on 12 June 2020 and concentrated on the statement of accounts and balance sheet.

### **Guidance on sign off of the AGAR**

External audit (PKF) have provided advice on sign off procedures for the 2019-20 AGAR. These are set out below

“there are no changes in the requirement for wet signatures on the AGAR. Our understanding is that wet signatures need to be added to the AGAR in the same order as previous years and that the AGAR will need to be passed between the relevant individuals for signature. Where individuals are self-isolating it is hoped that local assistance will be available to facilitate this. “

I will leave the Council to work out if this is achievable, given restrictions currently in place, but please do not put yourselves at risk to comply with this minor administrative requirement.

I 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 continues to use the RBS accounting system, an industry specific accounting solution well suited to this Council. This is the second year the Council has used RBS and the system is now well bedded in. 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 1.4.19, as recorded on the opening balance sheet, could be agreed back to the audited annual return for 2018-19. 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. The conclusion of audit certificate was published on 10<sup>th</sup> October, after the 30<sup>th</sup> September deadline – this is partly due to the late delivery of the external audit certificate (24.9.19), the Council should aim to meet the 30<sup>th</sup> September deadline this financial year.

I checked that internal and external audit reports had been considered at meetings of the Council. The external audit certificate opinion was qualified on the basis of an incorrect inspection period being set. This will be reported at the Council meeting of November 2019. The Council should take care to ensure the inspection period is set for 30 working days for the 2019-20 accounts.

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. The Vat has now been separated from the VAT of the Community Centre. The Clerk explained that there was an error in the submission of the Q2 VAT return., the Q1 return was sent to HMRC in error – this

error was quickly identified and HMRC have been contacted, so the error should not result in error in the VAT refunded to the Council.

### **Final Audit**

The accounting statements have been agreed back to balance sheet and income and expenditure reports produced from the RBS Accounting system. All comparatives reported in the financial statements have been agreed back to the audited 2018-19 accounts as published on the Council website, bar cells restated due to a change in accounting policy. Arithmetic within the accounts has been checked and found to be correct

The Council reviewed my interim audit report at the November meeting of Finance and General Purposes Committee. Recommendations have been reviewed by Council and the review of my report was properly minuted.

The quarter 4 VAT return has been completed and submitted to HMRC.

I am satisfied that the Council has met this control objective.

### **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 were considered at the October 2019 meeting of the Council. These are based on the revised NALC model for 2019-20. Standing orders were confirmed at the Annual meeting of the Council in May.

I confirmed by sample testing that acceptance of office forms are being properly completed by councillors. My testing confirms all councillors signed acceptance of office forms after the 2019 May election cycle.

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 reviewed a payment of £46K to Southern Gas Networks as part of my testing. I note that

- this is part of scheme to remodel the entrance to Lower Station Road Recreation Ground. I am therefore satisfied that this is a proper payment for the Council as it is a payment towards development work on Council owned property;
- the Council is seeking a refund as the work may no longer be necessary. SGN are being pressed to refund this prepayment to the Council.

I note that the Council still intends to move to online banking once this has been trialled for payments made by the Billingshurst Centre. I recommend that this is looked into as soon as the Council is able to review its payment systems.

### **Final Audit**

Non pay expenditure per box 6 to the accounts amounted to £691,514 , up from £269,926 in 2018-19.

Loan repayments pre box 5 to the accounts were £20,257 ( £20,257 in 2018-19)

There was an error in the initial draft of the accounts. The payment to purchase 83a High Street was incorrectly recorded as a capital repayment ( box 5) This should in fact be shown as an expenditure transaction and be coded to box 6. The clerk has processed the amendment with the assistance of RBS and the revised accounts are ready for submission to the external auditors.

I concentrated my testing at year end on the purchase of 83a High Street because of the materiality to the accounts.

Expenditure on purchase of 83a High Street amounted to £324,016 per the RBS general ledger. £315,000 was cost of property, I have agreed this to records from the Council's conveyancing solicitor. Purchase has agreed to approval in the minutes of the July 2019 meeting of Full Council. Power to purchase property confirmed to 1972 Local Government Act.

As a larger Council, with income / expenditure in excess of £200K, Billingshurst is required to follow the 2015 Transparency Code. The Council meets this by publishing information on the Finance section of the website. I sample tested published information and

- confirmed that expenditure transactions were up to date
- grant information was not yet updated
- fixed asset register was up to date

Council should ensure all information required by the Transparency Code is brought up to date as part of final closedown of 2019-20 accounts.

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 will review the risk assessment at my year end visit.

The Council is insured by Zurich, on a standard local council policy. This is a one year deal to test the customer service of this provider. I reviewed the insurance certificate and confirmed it is in date with an expiry date of October 2020. 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. I was able to confirm that the new property in the High Street recently purchased by the Council has been correctly added to the insurance policy, and an increased premium paid.

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. The Clerk confirmed that he is currently working with the Council's IT provider to test that back ups work properly - he will report results to me at my final audit.

**Final Audit**

The Council reviewed the risk assessment at the Full Council meeting of March 2020 and this review was properly minuted. I have reviewed the risk assessment; it is a detailed document and covers risks appropriate for a council of this level of activity. The risk assessment is clearly taken seriously and there is evidence of proper annual review to ensure that it takes account of changing circumstances at the Council. I am satisfied that this control objective is being met.

**D - The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.**

**Interim Audit**

I have confirmed with the Clerk that budget preparation for 2020-21 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. I reviewed the reports in detail, there were no negative variances not covered by transfers from reserves. I have suggested that the Clerk may wish to prepare a short narrative report to accompany the budget monitoring reports to add additional explanation for Councillors. I note a small deficit of £8K is budgeted for 2019-20.

The Council has recently purchased a property on Billingshurst High Street, to provide space for youth work , and to provide an income to the Council from an upper floor flat. This has been funded by a loan from PWLB. I have two recommendations relating to this purchase

- The Council must decide whether to elect to tax this property – essentially a decision needs to be made on the VAT status of the property, this affects whether VAT can be reclaimed on expenditure relating to the property, and whether VAT needs to be charged for income generated by the property. I strongly advise that external advice is sought to assist with this decision.
- Additional cost centres must be added to RBS to enable proper accounting for the purchase cost of the property , plus the loan receipt from PWLB.

I will carry out a detailed review of reserves at year end. I am satisfied that this control objective has been met

### **Final Audit**

Reserves at 31 March 2020 were £411,252 ( 2018-19 £409,175).

Of this, £183K is held in earmarked reserves, with £212K in the general reserve. General reserves are therefore 60% of precept. This is a satisfactory level of reserves for a Council of this size,

I confirmed that the budget and precept were set at the January meeting of Full Council. This was properly recorded in minutes. All precepting authority deadlines were therefore met.

I am satisfied that this control objective is being 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 was £352,463 (2018-19 £335,932). This has been agreed to third party documentation provided by external audit.

Other income per box 3 to the accounts was £545,826, up from (£125,768 RESTATED) in 2018-19.

This increase is largely explained by the receipt of loan monies from the Public Works Loans Board. PWLB loan income per the ledger is £333,883. I have confirmed PWLB loan value of £334,000 paid over to the Council in October 2019. The £117 difference is due to admin costs, and was not examined further as it is not material.

Following my recommendation at interim audit, the Council has changed the cost centre structure, and recharge income from BCCC is shown correctly as income in the 2019-20 statement of accounts. The Clerk has also restated the 2018-19 income figures for the recharge from BCCC. 2018-19 box 3 must also be marked as restated.

I am satisfied that this control objective is being met.

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

**Final Audit**

Limited use is now made of the petty cash tin. The clerk counted petty cash at my request and petty cash physical cash agreed to general ledger balance of £100

**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 for July 2019 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, and to contract / pay award letters.

My sample included staff employed by the Parish Council, but who work for the Billingshurst Centre Charity. The Council receives income from the Charity to meet the cost of these staff, this is accounted for as a credit against staff costs. This is not the correct accounting treatment for this income. I recommend that the Council contacts RBS to action the following adjustments:

- Remove income received from Billingshurst Centre from box 4 (staff costs) and transfer this to box 3 (other receipts) on the statutory accounts.
- This adjustment will need to be actioned for the current financial year and for 2018-19 to ensure comparative balances are correct.
- The annual return for will need to show restated figures for 2018-19 to reflect the above adjustment.

**Final Audit**

Staff costs per box 4 to the accounts were £184,440 ( 2018-19 £197,735 RESTATED ).

No further testing was carried out at final audit, as sufficient assurance was obtained at interim audit. I am content that this control objective has been met. Recharge income from BCCC has been correctly removed from this cell in the accounts and the comparatives figure for 2018-19 restated – see section E for details.

I am satisfied that this control objective has been met .

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

**Final Audit**

Fixed Assets per box 9 to the accounts were £1,778,620 ( 2018-19 £1,461,721).

I have agreed the balance in the accounts back to the asset register. The asset register appears complete and to record assets at cost or proxy cost, as required by regulations.

Changes in asset register value year on year are due to the purchase of 83a High Street. This has been added to the asset register at cost of £315K. This has been confirmed to documentation from the Council's conveyancing solicitor.

I am satisfied that the asset register can be reconciled to the fixed asset balance recorded in the accounts

**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 September 2019 for all 3 bank accounts and in all cases I found that the bank reconciliations had been properly prepared and were supported by bank statements and cashbooks. I agreed a sample of unrepresented cheques to subsequent presentation at bank.

No councillor review is currently evidenced on the face of the bank reconciliation. I understand that the review occurs, and is evidenced on bank statements, but the bank reconciliation should also be signed and dated by the reviewing councillor.

I wish to re raise one recommendation from last audit. 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 understand from the Clerk that this is currently under review.

**Final Audit**

Cash per box 8 to the accounts was £269,275 (2018-19 £387,437)

I reformed the year end bank reconciliation. For all bank accounts I was able to agree the balance on the bank reconciliation back to bank statements and cashbook balances recorded on RBS.

Unrepresented cheques amounted to £74,965. I confirmed that all cheques had cleared bank in the new financial year.

I note that no changes have been made in response to previous recommendations

- All cash held with one bank



- Council still making use of cheques

I will follow up progress at my next audit.

Loans outstanding at year end per box 10 to the accounts were £458,554 ( 2018-19 £137,507). The original draft accounts did not contain the correct figure in box 10 to the accounts. The Clerk has amended the accounts prior to review by external audit.

I am satisfied that this control objective has been met .

**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**

### **Final Audit**

Billingshurst has produced accounts on an accruals basis, this is required as income / expenditure is above £200k. A reconciliation between Box 7-8 of the accounts has been prepared using RBS. This has not been checked as amendments were still being finalised at the time of my audit. Debtors at year end were £136K. This is a high balance, and is due to 2 large outstanding debts

- £81,788, Section 106 monies due from District Council – checked to receipt at bank on 20 April 2020
- £ 46,000 owed by Southern Gas Networks (SGN)

The original figure for the SGN debtor in the accounts was not correct. This has now been amended.

An explanation of year on year variances has also been prepared, and provides detailed explanations for review by external audit. Again this has not been checked as amendments were still being finalised at the time of my audit.

I am satisfied 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. Accounts were sent to the Charity Commission in November 2019, before the December deadline. The Charity continues to maintain its own accounts.

## **L: Arrangements for Inspection of Accounts Final Audit**

Inspection periods for 2018-19 accounts were set as follows

<b>Inspection - Key date</b>	<b>2018-19 Actual</b>
<b>Accounts approved at Full Council</b>	12 June 2019 Full Council
<b>Date Inspection Notice Issued and how published</b>	14 June 2019 - noticeboards and website
<b>Inspection period begins</b>	17 June 2019
<b>Inspection period ends</b>	16 July 2019
<b>Correct length</b>	no - 22 not 30 working days
<b>Common period included?</b>	Yes – 1 <sup>st</sup> 2 weeks of July

The Council did not set the inspection period at the correct length of 30 working days. I must therefore report that the Council has not met this control objective on the internal audit section of the AGAR.

You should also mark box 4 of the Annual Governance Statement ( exercise of electors rights ) as “NO”.

Unfortunately external audit are very strict on this issue so there is no alternative to this approach.

I recommend that the Clerk takes care to set the inspection period correctly for the 2019-20 accounts, due to the exceptional circumstances in place due to Covid 19. Guidance from external audit can be found at <https://www.pkf-littlejohn.com/services-limited-assurance-regime-useful-documents-and-links>

I would like to take this opportunity to thank Greg for his assistance with the audit. I attach my invoice for your consideration. Please do not hesitate to contact me if I can be of any assistance, and I look forward to working with you in 2020-1.

Yours sincerely

*Mike Platten*

Mike Platten CPFA

## Points Forward – Action Plan - Interim Audit

<b>Matter Arising</b>	<b>Recommendation</b>	<b>Council Response</b>
The conclusion of audit certificate was published on 10 <sup>th</sup> October, after the 30 <sup>th</sup> September deadline – this is partly due to the late delivery of the external audit certificate (24.9.19).	The Council should aim to meet the 30 <sup>th</sup> September deadline this financial year.	<b>Noted</b>
The external audit certificate opinion was qualified on the basis of an incorrect inspection period being set. This will be reported at the Council meeting of November 2019.	The Council should take care to ensure the inspection period is set for 30 working days for the 2019-20 accounts	<b>Noted</b>
I note that the Council still intends to move to online banking once this has been trialled for payments made by the Billingshurst Centre	I recommend that this is looked into as soon as the Council is able to review its payment systems.	<b>Ongoing</b>
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.	The Clerk confirmed that he is currently working with the Council's IT provider to test that back ups work properly - he will report results to me at my final audit.	<b>Ongoing</b>
The budget review was clearly noted in minutes.	I have suggested that the Clerk may wish to prepare a short narrative report to accompany the budget monitoring reports to add additional explanation for Councillors.	<b>Noted</b>
The Council has recently purchased a property on Billingshurst High Street, to provide space for youth work , and to provide an income to the Council from an upper floor flat. This has been funded by a loan from PWLB. I have two	The Council must decide whether to elect to tax this property – essentially a decision needs to be made on the VAT status of the property, this affects whether VAT can be reclaimed on expenditure relating to the property, and whether VAT	<b>To go to F&amp;GP Committee</b>

recommendations relating to this purchase	needs to be charged for income generated by the property. I strongly advise that external advice is sought to assist with this decision.	
	Additional cost centres must be added to RBS to enable proper accounting for the purchase cost of the property , plus the loan receipt from PWLB.	<b>In hand</b>
No councillor review is currently evidenced on the face of the bank reconciliation. I understand that the review occurs, and is evidenced on bank statements,	The bank reconciliation should also be signed and dated by the reviewing councillor	<b>To be actioned</b>
I wish to re raise one recommendation from last audit. 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 understand from the Clerk that this is currently under review.	<b>In hand</b>
The Council receives income from the Charity to meet the cost of these staff, this is accounted for as a credit against staff costs. This is not the correct accounting treatment for this income.	I recommend that the Council contacts RBS to action the following adjustments: <ul style="list-style-type: none"> <li>- Remove income received from Billingshurst Centre from box 4 (staff costs) and transfer this to box 3 (other receipts) on the statutory accounts.</li> <li>- This adjustment will need to be actioned for the current financial year and for 2018-19 to ensure comparative balances are correct.</li> </ul>	<b>To be actioned - now actioned, recharge income is shown as income and not as credit on staffing line</b>

	<ul style="list-style-type: none"><li>- The annual return for will need to show restated figures for 2018-19 to reflect the above adjustment.</li></ul>	
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## Points Forward – Action Plan - Final Audit

Matter Arising	Recommendation	Council Response
<p>Transparency disclosure - expenditure transactions were not up to date at the time of my audit</p>	<p>Council should ensure all information required by the Transparency Code is brought up to date as part of final closedown of 2019-20 accounts.</p>	
<p>The Council did not set the inspection period at the correct length of 30 working days.</p> <p>Unfortunately, external audit are very strict on this issue so there is no alternative to this approach.</p>	<p>I must therefore report that the Council has not met this control objective on the internal audit section of the AGAR.</p> <p>You should also mark box 4 of the Annual Governance Statement ( exercise of electors rights ) as “NO”.</p>	
<p>I note that no changes have been raised to previous recommendations</p> <ul style="list-style-type: none"> <li>- All cash held with one bank</li> <li>- Council still making use of cheques</li> </ul>	<p>I will follow up progress at my next audit.</p>	

