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Dear Greg

Billingshurst Parish Council - Internal Audit 2017-18 – Final Audit Report

The internal audit of Billingshurst Parish Council for the 2017-18 financial year has now been completed. The interim audit was completed on 9 November 2017, and the final audit on 17 April 2018. My report is attached as part of this letter for consideration by the Council.

Whilst I have raised a number of recommendations in this report, I am satisfied that financial controls are generally strong, and I note the very positive response of the Council to recommendations raised at my interim audit. I am satisfied that all control objectives set out in the Internal Audit section of the Annual Governance and Accountability Return (AGAR) have been met, and I am able to sign off my report without comment.

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 in the course of 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.

We are required by Section 4 of the Annual Report 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. Interim audit findings are included in this letter with details of work completed at the final audit recorded under a separate sub heading for each control objective.

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

The Council maintains its cash book on an excel spreadsheets, which are maintained by the clerk. My testing has demonstrated that the cash book is kept up to date, and that financial records such as invoices could be readily located from referencing on the cashbook. All key reconciliations are carried out regularly. The annual return is derived from the excel spreadsheet, and the excel

spreadsheet is the source document for budget monitoring. The excel cashbook is not currently password protected.

I do not believe that the current spreadsheet based accounts system is appropriate for a Council of this size. My reasons are as follows

- Spreadsheet data is not secure - entries on spreadsheets can easily be accidentally deleted / changed, meaning key financial data may not be accurate
- Reporting is weak and has to be created manually – for example annual return / management accounts
- Balance sheet accounting is not straightforward
- There is no audit trail – there is no record of who has posted transactions to the cashbook
- The spreadsheet is complicated and is only really usable by officers who use it regularly

I strongly recommend that the Council considers moving financial records to an accounting software package for the 2018-19 financial year.

I also recommend that the excel cashbook is password protected whilst still in use.

I confirmed that the opening balances on the excel spreadsheet at 1.4.17 could be agreed back to the audited annual return for 2016-17. 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 have one minor recommendation. The internal audit report was considered at the Finance and General Purposes Committee. This report should also be taken to a meeting of Full Council in future and a minute recorded.

I reviewed the Council's VAT records, and checked that the VAT return had been submitted to HMRC for the period to 30 September 2017. I note that the Council is currently working to separate its VAT return from that of the Community Centre.

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I confirmed that VAT had been reclaimed for the period to the end of December. The VAT return for the period to 31.3.18 was being finalised at the time of my audit, so I was not able to verify year end VAT debtor to the VAT return. However this is simply due to the early timing of the final audit.

I agreed the statement of accounts back to the Council's excel accounting records. I am satisfied that the accounts are derived directly from the Council's books of account. I checked comparatives and opening reserves balance back to the audited accounts for 2016-17. I confirmed that the Accounts cast.

I have confirmed that the Council has maintained transparency records throughout the financial year. Expenditure data was loaded to the end of the 2017-18 financial year.

I note that the Council has installed the RBS accounting system for the new financial year. This should strengthen financial reporting further at the Council.

I am satisfied that this control objective has been met.

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

The financial regulations were last reviewed in November 2015, and are published on the council website. These regulations are therefore due for review. Whilst the financial regulations are based on the standard NALC model, there appear to have been some amendments (for example the section on bank reconciliations appears to be missing.) I recommend that the Financial Regulations are reviewed against NALC standard before financial year end. Standing orders were reviewed and approved at the Full Council meeting of July 2016.

The Council approves expenditure via the annual budget process, on a monthly basis by notification of the future expenditure to be made in the minutes and by a dual signature process on the physical payment. This is a robust well-ordered system and on this basis I make no recommendation to change.

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
- Approval for the payment was recorded in a minute of a council meeting
- Signature of two councillors was viewed on each invoice tested.

I also confirmed that where appropriate, competitive quotes had been obtained from suppliers.

The Council is compliant with transparency requirements. As a larger council (expenditure over £200K) the Council is required to follow the 2015 Transparency Code. I was able to confirm that the Council loads payment information to the website on a regular basis, as well as information such as the fixed asset register and financial policies and procedures and staffing structure.

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Non pay expenditure in box 6 to the accounts is £226,209 (2016-17 £134,998). I tested a sample of 5 expenditure transactions from the second half of the financial year for compliance with financial regulations. For all transactions reviewed, I was able to confirm that:

- Cheque stub contained 2 councillor signatures
- Invoice signed off by 2 councillors
- Ledger entry agreed to invoice
- Payment approved at a full council meeting.
- Vat accounting accurate

I am satisfied that this control objective has been met and that I have identified no errors in the expenditure figure recorded in 6 to the accounts.

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

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.

The Council is insured by Avivia, on a standard local council policy. This is the final year of a three agreement. I have reviewed the insurance policy and confirm it is in date and is valid until October 2018. 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. Other assets with an insured value of £750K are covered by the policy. There is evidence that this has been reviewed in the course of 2017-18, with the addition of new assets. 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.

Money cover in the insurance policy is set at £250K. This covers both the Council and the Community Centre. This is too low, given year end cash balance of £434K for Council and £110K for the Community Centre. I recommend that money cover is increased to a level that is above the maximum cash holdings for the 2 organisations at any point in the financial year.

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. Backs up should be tested remotely on an annual basis to ensure key information and software can be accessed from back ups.

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I confirmed that the Council has completed its annual risk assessment, and that this risk assessment was formally approved at the Full Council meeting of March 2018. I have one minor recommendation:

I note that the risk assessment sign off has been noted via the 'other committees' section of the Full Council minutes. I recommend that going forward, the risk assessment should be approved via an individual numbered minute of the Full Council. Other parish and town councils have been criticised by external audit for following the approach adopted by Billingham PC this year.

I was pleased to note that money cover has been reviewed and increased in response to my earlier recommendation

I am satisfied that this control objective has been met.

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

I have confirmed with the Clerk that budget preparation for 2018-19 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. Approval meetings have been timetabled, and the budget and precept will be approved at the Full Council meeting in January 2018, thereby meeting precepting authority deadlines.

The Council held cash balances of £434K at 31.3.17. Earmarked reserves amounted to £193k, leaving a general fund balance of £236K. This is 85% of the 2016-17 precept. Parish councils have no power to accumulate cash, and as a general principle, I advise that Councils should not hold more

than 50% of precept in the general fund. I also note that there are no earmarked reserves to cover repairs and maintenance of council buildings. It may be prudent to transfer some of the general fund balance into a repairs reserve. I recommend that the Council undertakes a review of earmarked reserves before 2017-18 year end.

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I confirmed that the budget and precept for 2018-19 was approved at the Full Council meeting of 24 Jan 2018, and all precepting authority deadlines were met.

I confirmed that budget monitoring reports were presented to Full Council at the end of quarter 2. Reporting has been difficult due to shortcomings in the Council's accounting system. I recommend that budget monitoring reports are produced quarterly now RBS has been installed.

I am pleased to note that the Council has undertaken a review of reserves in response to my interim audit. However, there is still further work to do to on reserves, which stood at £409,033 at 31 March 2018. Of this balance £194K is held in earmarked reserves, leaving £241K in the general fund. General Fund reserves therefore stood at more than 90% of precept. I recommend that general fund reserves should be held at around 50% of precept going forward. Further work should be carried out to develop earmarked reserves.

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.

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Precept per box 2 to the accounts is £258,408 (2016-17 £280,790) Precept has been agreed to third party information on the Horsham DC website.

Income per box 3 to the accounts is £121,328 (2016-17 £77,240). I tested 2 transactions, amounting to £71K – 60% of non-precept income for the year.

£49K payment from HDC re: toilet refurbishment - agreed to notification from the DC

£22k payment from HDC for highway cleaning - agreed to allocation letter from HDC

I have identified no errors in my testing of box 2 and 3 of the financial statements and consider this control objective to have 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.

Payroll is processed by West Sussex County Council. Payroll will be tested at year end.

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Payroll per box 4 to the accounts is £144,163 (2016-17 129,919)

I selected a sample of payroll transactions from 3 months randomly selected in the financial year. 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.

My testing identified a number of small differences between pay processed by payroll and rates of pay approved at staffing committee. These are not material, and I am satisfied that controls over payroll are adequate. However, I have 2 recommendations

- Monthly payroll for all staff should be reconciled back to annual salaries as approved by the Staffing Committee. This should be checked and signed off by the Clerk
- Clerk to investigate differences identified in the course of this audit and report results to Staffing committee

I am satisfied that this control objective has been met and that I have identified no material errors in the calculation of staff pay figure set out in box 4 to the accounts .

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

The Council has a comprehensive fixed asset register. I note that this includes the Community Centre, which is excluded from the Council's accounts and included in the accounts of the Community Centre charity. I will need to see proof of ownership of this asset as part of my final accounts audit in order to confirm this accounting treatment is correct.

Detailed fixed asset testing will be carried out at year end.

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Fixed assets per the accounts were £1,452,972 (2016-17 £1,446,992)

I have been able to confirm the balance in the accounts to the Council's asset register. I confirmed by review and enquiry that no fixed asset disposals have occurred in 2017-18 or that any are necessary. I reviewed a sample of high value assets and additions and can confirm these have been recorded at cost on the asset register.

I have identified no errors in my testing of fixed assets recorded in box 9 to the accounts.

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

The Council holds 3 accounts with Nat West Bank. I confirmed that all accounts are reconciled to the cashbook monthly and that the reconciliations are reviewed by a councillor and reported to the Finance and General Purposes Committee. I reformed the September bank reconciliations. I was able to confirm balances on the reconciliations back to cashbook and bank statements. Balancing items were agreed to schedules of unrepresented cheques, a sample of which were checked to subsequent presentation at bank. Councillor signoff of the banks statements and the reconciliation was evidenced.

I have one recommendation. All Council monies are held with one bank at present, meaning protection under the financial services guarantee scheme is not maximised. The Council may wish to consider spreading cash across a number of financial institutions.

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Total borrowings per box 10 to the accounts is £149,783 (2016-17 £161,417.) This has been confirmed to the PWLB website.

Cash per box 8 to the accounts is £409,033 (2016-17 £434,825)

I was able to confirm balances recorded in the financial statements back to the year-end bank reconciliation, which I reformed. At the time of my audit I was not able to carry out the following testing

- confirmation of councillor review of bank reconciliation – this is due at the next meeting of Council
- Testing of unrepresented cheques to subsequent clearance – bank statements for April not yet available.

I note that the year-end bank reconciliation was carried out on 29 March. The clerk should ensure there were no changes to bank balances over the Easter weekend before sending papers to external audit.

I am satisfied that box 8 and 10 to the accounts are correctly 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 Accounts have correctly been prepared on the accruals basis for this larger council. I have reminded the clerk to follow external audit guidance when setting the inspection period for the accounts and to ensure that this covers the first 2 weeks of July, as required by regulation. I reviewed the reconciliation between box 7&8 of the accounts, which appeared accurate. At the time of my audit , the variance report for external audit had not been prepared, but I understand this is in hand.

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 have confirmed that 2016-17 accounts for the charity have been completed and loaded on the Charity Commission website. I have one minor point. The accounts for 2016-17 have been marked as qualified on the charity commission website, yet the independent examiner opinion appears to be clear. This should be reviewed.

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I confirmed that the qualification note has been removed from the charity commission website. I have identified no Trust transactions in the course of my testing of Council accounts, and I am therefore satisfied that the books of the 2 entities are separate.

I will invoice you separately. I would like to take this opportunity to thank you for your help in the course of this audit. I look forward to working with you in the future. Please do not hesitate to contact me if I can be of any assistance.

Yours sincerely

Mike Platten CPFA

Points Forward – Action Plan

Matter Arising	Recommendation	Council Response
Cashbook is currently maintained on an excel spreadsheet.	I strongly recommend that the Council considers moving financial records to an accounting software package for the 2018-19 financial year	RBS omega installed
The excel cashbook is not currently password protected.	I also recommend that the excel cashbook is password protected whilst still in use	Password protected
The internal audit report was considered at the Finance and General Purposes Committee.	This report should also be taken to a meeting of Full Council in future and a minute recorded.	My report went to full council
Published financial regulations were last reviewed in November 2015	I recommend that the Financial Regulations are reviewed against NALC standard before financial year end	Reviewed and adopted model regs adapted
Risk assessment to be completed in January 2018.	I remind the Council that they must ensure that the risk assessment must be reviewed at a Full Council meeting before March 31 st , and the review evidenced by a minute of the Full Council	Full Council
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.	In hand for next year
Money cover in the insurance policy is set at £250K. This covers both the Council and the Community Centre. This is too low	I recommend that money cover is increase to a level that is above the maximum cash holdings for the 2 organisations at any point in the financial year.	Increased
Parish councils have no power to accumulate cash, and as a general principle, I advise that Councils should not hold more than 50% of precept in the general fund. I also note that	I recommend that the Council undertakes a review of earmarked reserves before 2017-18 year end.	Full review reserves review undertaken

there are no earmarked reserves to cover repairs and maintenance of council buildings. It may be prudent to transfer some of the general fund balance into a repairs reserve		
All Council monies are held with one bank at present, meaning protection under the financial services guarantee scheme is not maximised	The Council may wish to consider spreading cash across a number of financial institutions.	Still under review.
The Community Centre accounts for 2016-17 have been marked as qualified on the charity commission website, yet the independent examiner opinion appears to be clear	This should be reviewed.	changed

Final Audit – Points Forward

Matter Arising	Recommendation	Council Response
I note that the risk assessment sign off has been noted via the 'other committees' section of the Full Council minutes	I recommend that going forward, the risk assessment should be approved via an individual numbered minute of the Full Council	
There is still further work to do to on reserves, which stood at £409,033 at 31 March 2018. Of this balance £194K is held in earmarked reserves, leaving £241K in the general fund. General Fund reserves therefore stood at more than 90% of precept	I recommend that general fund reserves should be held at around 50% of precept going forward. Further work should be carried out to develop earmarked reserves.	
Monthly payroll for all staff should be reconciled back to annual salaries as approved by the Staffing Committee. This should be checked and signed off by 2 councillors each month	This should be checked and signed off by 2 councillors each month	
2 differences between approved rates of pay and processed payroll were	Clerk to investigate differences identified in the course of this audit and report results to	

identified in course of my sample testing.	Staffing committee	
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