FARSIGHT CONSULTING

27 - 29 Vauxhall Grove
London, SW8 1SY
+44 (0) 207 820 62 90
info@farsightconsulting.co.uk
www.farsightconsulting.co.uk

Karen Ross
Parish Clerk
Sherfield-on-Loddon Parish Council

23 May 2019

Dear Karen

Sherfield-on-Loddon Parish Council Internal Audit 2018-19

The internal audit of Sherfield-on-Loddon 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 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 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 30 November 2018 concentrated on in year financial transactions and governance controls. At my second visit on 23 May 2019, I reviewed the statement of accounts and balance sheet.

I also set out a detailed schedule of recommendations for consideration by Councillors at Appendix A to this letter. This should be presented at the next available meeting of Full Council.

I would like to thank Karen for her assistance with the Audit and her hard work in the course of the financial year.

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 Alpha accounting system from 1.4.18. This 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 note that the Council has installed the RBS Allotment and Cemetery packages which link into the RBS ledgers.

The Council received a clear audit certificate from the external auditors in 2017-18, with a minor point raised about information submitted to external audit. I 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 external audit certificate is due to be reported at the December meeting of Full Council. All obligations relating to the 2017-18 annual return are in hand.

I reviewed the Council's VAT records and checked that the VAT return had been submitted to HMRC for the period to end October 2018, and that the VAT reclaimed could be agreed to a schedule of transactions recorded on RBS.

Final Audit

I agreed the statement of accounts back to annual return reports produced by the Council's accounting system, RBS. I conclude that all figures on the annual return have been correctly derived from the Council's accounting system. Arithmetic has been checked and the accounts cast. I checked comparative figures for the previous financial year disclosed on this year's annual return back to last year's signed accounts, and can confirm that opening reserves balances, and comparative figures are accurately recorded in this year's annual return. The Council received a clear audit certificate last year, so I confirm that there is nothing requiring consideration in this set of accounts.

I also confirmed that VAT is up to date, with the return completed and submitted to HMRC for the period to 31.3.19. The refund has been credited to the Council bank account.

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 and standing orders were last reviewed in May 2018 and are based on NALC templates. These were approved at a meeting of Full Council. The Members Code of Conduct has not been reviewed for several years, this should be done in 2018-19.

I confirmed by sample testing that members acceptance of office forms have been signed in line with regulations for all members tested.

I note that payments are authorised at a meeting of the council. For 2017-18, payments are made by cheque, signed by 2 councillors, going forward, electronic banking will be used. The clerk will set up payments at bank, these will then be authorised by 2 councillors using electronic tokens. I recommend that the financial regulations are reviewed prior to the introduction of electronic banking, to check that the financial regulations match the proposed electronic banking process.

I tested a sample of expenditure transactions, selected at random from throughout the financial year, and sought 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 payment approval listing containing the payment
- VAT accounting correct

I identified the following matters as a result of this testing:

1. I was not able to locate the payment list for the July 2018 Council meeting. This should be located, or payments represented to the next meeting and signed off by Councillors as required by financial regulations

2. 14K payment for log cabin. I have not been able to see this payment approved at a Council meeting. It was originally put on hold by the Council, but no subsequent approval has been noted in Council minutes. This payment must be represented to Council for approval

3. August payment list only had one Councillor signature - there should be 2.

I recommend that the above transactions are represented to Council for proper approval in line with financial regulations. I will recheck these items at year end, and carry out additional testing.

There is scope to run payment listings directly from the new accounting system. This would save time and reduce the risk of error – I recommend that the Clerk contacts RBS to get instruction on how to do this.

I have also suggested that the Clerk should consider using electronic filing for invoices, this will enable them to be located more quickly, and invoice packs can then be sent to Councillors for review as part of the proposed electronic banking process.

I will need to follow up points raised above and carry out extra testing at year end to provide assurance that financial regulations are being met at my year end audit.

Final Audit

Non pay expenditure in box 6 to the accounts is £116,891 (£73,228 in 2017-18)

I followed up matters arising from the interim audit – see responses from the Council in the recommendations table at the end of this report,

I carried out sample testing of further expenditure items from the second half of the financial year. Again, for all transactions tested I was able to confirm the following:

- 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
- 2 councillor sign off viewed on payment approval schedule
- Vat correct

As a smaller council, with expenditure / income below £200K, the Council is not required to comply with full requirements of the 2015 Transparency Code requirements, although much of the disclosure required is present on the council website.

I have identified no errors in my testing of expenditure recorded in box 6 to the accounts

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. This will be taken to the December meeting of Full Council, I will review this assessment at year end.

The Council is insured by Axa, on a standard local council policy, second year of a three-year deal. I have reviewed the insurance policy and confirm it is in date and is valid until October 2019. I reviewed the detail of the insurance policy and confirmed that:

- Money cover in the insurance policy is set at £250K, sufficient for the Council
- There is no buildings cover. I have discussed this with the clerk, and whilst I understand the reasons, Councillors should minute that they are content with this decision annually.

Computer data is backed up using a cloud-based solution. RBS data is automatically backed up to the cloud. I recommend that the back up is tested annually, to ensure all computer data can be accessed.

I am satisfied that this control objective has been met.

Final Audit

I confirmed that the Council has carried out a comprehensive risk assessment. This was reviewed at the December 2018 meeting of the Full Council. A separate minute reference records the Council's review of the risk assessment (minute reference 181215). I reviewed the risk assessment as presented to Council. I have confirmed it covers risks relevant to this small council.

I confirmed the interim internal audit report was discussed at December meeting of Full Council, and an action plan developed to respond to recommendations.

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

Interim Audit

The budget for 2019-20 being worked on at present. The budget will be approved in December and precept finalised in January. Precepting deadlines will be met.

Quarterly budget monitoring reports are produced. These are now produced directly from RBS, using standard reports. These appear comprehensive and are submitted to Full Council as part of standing quarterly financial reports. The Clerk has now identified the best report from the system, and this was sent out for the November meeting of the Council. I reviewed this report. I note that while the budget is on target overall, there are a number of cost centres with no budget attached. This is due to teething issues around the original budget set up, but I recommend that time is taken in setting up the 2019-20 budget to ensure that budgets are set up for all cost centres where expenditure is anticipated.

I will review reserves at year end, however I recommend that the Council reviews reserves when setting the 2018-19 budget.

Final Audit

I confirmed that the 2018-19 precept was approved at the Full Council meeting of January 2019. The precept and budget were properly noted within the minutes of the meeting. A detailed budget derived directly from the accounting system was appended to the minutes. I consider the presentation and recording of approval of the 2019-20 budget to be good practice.

Reserves at year end set out in box 7 to the account were £82,527 (2017-18 £86,657).

Of this £64K is held in general reserves, which is 85% of precept. This is too high, I recommend that general reserves should not exceed 50% of precept without good reason. I therefore recommend that Council should review its reserves in course of next few months and consider setting up more earmarked reserves, to cover future projects / contingencies / to support repairs and maintenance of Council assets.

I confirmed by review of council minutes that budget monitoring reports, derived directly from RBS, are reported to Council, in line with Financial Regulations.

I am content 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 £75,000 (2017-18 £75,000). I have confirmed precept income to third party notification supplied by the external auditors.

Other income per box 3 to the accounts is £63,730 (2017-18 £37,405).

I tested £38K of this income to third party notification, such as remittance advice notes form the District Council, and confirmed entries in cashbook to supporting vouchers.

I have identified no errors in my testing of income recorded in box 2 and 3 to the accounts

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

No petty cash – confirmed by the clerk.

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 externally by a payroll specialist. I tested the payroll for October 2018 for the clerk. I was able to confirm

- Cashbook entry could be agreed to payslip
- Basic pay could be agree to hourly rate x number of hours worked as approved by the council
- Payment approved on a monthly payment list at a meeting of the Council

I was pleased to note the clear way in which the Council records approved rates of pay in confidential minutes of the council.

Final Audit

Staff costs per box 4 to the accounts were £24,039 (2017-18 £26,490)

No further testing at final audit – I have tested payroll at interim audit. I am satisfied that this control objective has been met.

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

Interim Audit

I will test this in detail at year end as part of the process of reconciling the accounts to the fixed asset register. However, I remind the Council of my recommendation from last year

"I recommend asset register is reviewed in 2018-19, and that the council carried out a validation exercise to confirm all assets still exist. The asset register should then be presented in the format suggest by NALC in "Governance and Accountability"

Final Audit

Fixed assets per box 9 to the accounts are £194,878 (2017-18 £163,613).

Fixed assets have increased by £31K in the course of 2018-19. These have been entered on the asset register at cost and a schedule of new assets explains the increase in asset value. New fixed assets include

- Shelter in burial ground £13K
- Allotment toilet - £8K
- Storage Unit £5K

I confirmed by review and enquiry that no fixed asset disposals have occurred in 2018-19 or that any are necessary.

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 2 bank accounts, one with HSBC, and a new account with Lloyds. I confirmed that all accounts are reconciled to the cashbook monthly and that the reconciliations are presented to councillors on a monthly basis. The bank reconciliation is reported to Council meetings as required by financial regulations.

I re-performed the September 2018 bank reconciliation. I was able to confirm balances on the reconciliations back to cashbook and bank statements. The reconciliation and bank statement had been signed off by a councillor, and reported to meeting of the full council.

I am satisfied that this control objective has been met.

Final Audit

Borrowings – box 10 to the accounts £18,112 (2017-18 £18,991) The year end balance has been agreed to data on the PWLB website.

Cash and bank – box 8 to the accounts £82,527 (£86,657 2017-18). The Council now holds one active bank account, with Lloyds. I have reperformed the year end bank reconciliation and I was able to agree the bank reconciliation back to bank statements and the RBS cashbook. The reconciliation had been reviewed by a Councillor, both statement and bank reconciliaition were signed off as reviewed.

Boxes 10 and 8 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
Final Audit

The accounts have been prepared on the receipts and payments basis. This complies with the regulatory environment of Councils with income / expenditure below £200K.

A year on year variance report has been completed as required by the external auditors and clear explanations given for variances. I advised the clerk to send the RBS bank reconciliation to the external auditors. I am satisfied that this control objective has been met.

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

No trusts - confirmed with clerk

L: Exercise of Public Rights - Inspection of Accounts

This new internal control objective is not active for 2018-19 financial year. However, I confirmed with the Clerk that arrangements are in place at this Council to ensure proper exercise of public rights. The Council intends to use the inspection dates recommended by external audit.

Inspection Process	2018-19 Proposed Date
Accounts approved at full council	May 28th
Date Inspection Notice Issued and how published	12 June
Inspection period begins	17 June
Inspection period ends	26 July
Correct length	Yes
Common period included?	Yes
Summary of rights document on website?	Yes, confirmed this will be published

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

M Platten

Mike Platten CPFA

Points Forward – Action Plan - Interim Audit

Matter Arising	Recommendation	Council Response
The Members Code of Conduct has not been reviewed for a number of years	This should be done in 2018-19	**This has been reviewed against NALC standards and was approved at Full Council meeting December 2018**
I identified the following matters as a result of this testing: - I was not able to locate the payment list for the July 2018 Council meeting. This should be located, or payments represented to the next meeting and signed off by Councillors as required by financial regulations - 14K payment for log cabin. I have not been able to see this payment approved at a Council meeting. It was originally put on hold by the Council, but no subsequent approval has been noted in Council minutes. This payment must be represented to Council for approval - August payment list only had one Councillor signature - there should be 2.	I recommend that the above transactions are represented to Council for proper approval in line with financial regulations. I will recheck these items at year end.	**Payment list for July now signed by Councillors. Not reapproved in minutes.** **Retrospective approval given for this payment in December 2019 meeting.** **Aug payment list not re – signed.**
There is scope to run payment listings directly from the new accounting system. This would save time and reduce the risk of error.	I recommend that the Clerk contacts RBS to get instruction on how to do this	**Can 't be done – RBS have been contacted.**
There is no buildings insurance cover.	I have discussed this with the clerk, and whilst I understand the reasons, Councillors should	**Council has refurbished the building and insurance will be sought going forward – policy**

	minute that they are content with this decision annually.	**to be reviewed in October after refurbishment**
Computer data is backed up using a cloud-based solution. RBS data is automatically backed up to the cloud.	I recommend that the backup is tested annually, to ensure all computer data can be accessed.	**RBS backed up to cloud this is tested regularly.** **Disk back up should be held remotely, extra disk should be purchased.**
I note that while the budget is on target overall, there are a number of cost centres with no budget attached. This is due to teething issues around the original budget set up, but.	I recommend that time is taken in setting up the 2019-20 budget to ensure that budgets are set up for all cost centres where expenditure is anticipated	**Budget redone and approved using RBS cost Centre structure**
I recommend asset register is reviewed in 2018-19 , and that the council carried out a validation exercise to confirm all assets still exist.	The asset register should then be presented in the format suggest by NALC in "Governance and Accountability"	**MP to send format to Clerk.**

Points Forward – Action Plan - Final Audit

Matter Arising	Recommendation	Council Response
I recommend that general reserves should not exceed 50% of precept without documented reasons.	I therefore recommend that Council should review its reserves in course of next few months and consider setting up more earmarked reserves, to cover future projects / contingencies / to support repairs and maintenance of Council assets.	