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Richard Maccabee
Clerk to Batheaston Parish Council

7 July 2020

Dear Richard

BATHEASTON PARISH COUNCIL

Internal audit report - Year ended 31 March 2020

The Accounts and Audit (England) Regulations 2015 (as amended) require all Town and Parish Councils to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

I am bound by the ethical guidelines of the Institute of Chartered Accountants of England and Wales. I confirm that I am independent of the Council.

The internal audit work I have carried out has been planned to enable me to give my opinion on the control objectives set out in the Annual Internal Auditor's Report on the 2019-20 Annual Governance and Accounts Return.

I have complied with the legal requirements and proper practices set out in:

- 'Governance and Accountability for Local Councils – A Practitioners' Guide (England)' 2019
- The Accounts and Audit (England) Regulations 2015 (as amended).

I was appointed as internal auditor to the Parish Council on 30 April 2019.

My internal audit visit was on 23 June 2020, further work was completed remotely in July.

Background

The Clerk commenced employment with the Council on 27 November 2019. He will be studying for the CiLCA qualification.

Batheaston Parish Council has income and expenditure of between £50,000 and £100,000 and is subject to review by the external auditor, PKF Littlejohn. The Council's annual report from the external auditor for 2018-19 highlighted other matters relating to risk assessment, public rights and internal controls.

The Council is not a sole managing trustee.

The Council is not required to comply with either Transparency Code as its income and expenditure falls between the thresholds for which either of the Transparency Codes apply.

The Council's accounting records are maintained on VT cashbook. The Council will be implementing a new accounting software package in 2020.

Internal audit checks

I have undertaken a series of audit tests on the Council's financial records, vouchers, documents, minutes, policies, procedures and insurance documentation to ascertain the efficiency and effectiveness of the Parish Council's internal control framework. This internal audit report is based on the audit testing carried out at the visit.

During this visit I checked the following:

- Minutes of Council Meetings
- Policies and procedures
- Bank and cash
- Petty cash
- Income and expenditure
- VAT claims
- Payroll
- Risk assessment and insurance
- Asset register
- Budgets and reserves
- Action taken on the recommendations in prior report
- Year end checks

Findings

Details of good practice noted, my recommendations and other matters to be brought to the Council's attention are set out below.

Good practice

- The Clerk will be studying for the CiLCA qualification
- The Clerk is aware of the requirements of GDPR and the Council is registered with the ICO
- The payroll is operated by an independent external payroll provider
- The newly formed Finance Committee will take an active scrutiny role

Good practice - continued

- Action has been taken on my recommendations to improve controls over cash receipts from the village hall and the public toilets, or is underway on all of the recommendations in the last internal audit report

Recommendations

Minutes of meetings

- Each page of the minutes is initialled by the chair
- The amount of expenditure approved at each meeting is recorded in the minutes.

Policies and procedures

- The Council's Standing Orders and Financial Regulations are reviewed regularly and are tailored appropriately for the Council
- The Council draws up a reserves policy setting out the level of general reserves required, and the amounts of reserves earmarked for particular purposes in the future.
- The Council considers documenting the day to day procedures that are undertaken by the RFO in order to implement the requirements set out in the Financial Regulations. This will be facilitate the handover of all or any duties to new employees.

Bank and cash

- Bank reconciliations are carried out to the last day of each month and are signed and dated by the Clerk.
- Bank reconciliations should be taken to Council meetings for checking by a Councillor. The Councillor should evidence the check by signing and dating the bank reconciliation.

Petty cash

- The petty cash in hand at 31 March 2020, as collected from the public toilets in March 2020 must be included as income in the accounts and as part of the bank and cash balances at 31 March 2020 on the AGAR. This should be included on the year end bank reconciliation submitted to PKF Littlejohn

Income and expenditure

- Payment schedules of expenditure each month are taken to a Council meeting and are initialled by a Councillor at the meeting as evidence of approval.
- All invoices are initialled by the two Councillors when they are paid as evidence of approval.

VAT claims

- VAT has not been reclaimed for a number of years. The Council should reclaim VAT for the past three years as soon as possible. The Council should submit VAT claims regularly, at least annually or preferably more frequently.

Risk assessment and insurance

- The Council must ensure that it reviews, updates and adopts the risk assessment annually. Further guidance on risk assessments is available in the Practitioners Guide.
- The Council should confirm with its insurers that it has adequate cover for officials fidelity. The amount of cover should be sufficient to cover the year end bank balance plus half the precept.

Asset register

- The asset register should be reviewed regularly and updated for purchases in 2019-20 before the AGAR is submitted.

Submission to external auditor PKF Littlejohn

AGAR Section 1- The Annual Governance Statement

- The Council will need to consider whether it can give positive responses to all the assurances on the Annual Governance Statement, in particular Assertions 2 and 7.

AGAR Section 2 – The statement of accounts

- Boxes 7 and 8 on the AGAR and the bank reconciliation currently include a negative balance of £14.98 on the Lloyds card, ie as an amount owed by the Council. As the AGAR is prepared on a receipts and payments basis this balance should be removed from Boxes 7,8 and the bank reconciliation and Box 6, other expenditure, should be reduced by £14.98, as this had not been paid at 31 March 2020.
- Box 6 should be £72,566, and Boxes 7 and 8 should be £40,691.

Explanations for variances

- Explanations will be required for the increases in Boxes 3 and 6.

Other matters to be brought to the Council's attention

Annual Internal Audit Report

The Annual Internal Audit Report was completed with positive responses to all relevant objectives with the exception of the following objectives:

- A - The books and records were not properly maintained throughout the year, due to a change of clerk, and the subsequent handover period.
- B - Not all expenditure was properly authorised by the Council during the year.
- H - The asset register was not maintained throughout the year, it has been updated since the year end and the updated figure included in Box 9 of Section 2 of the AGAR
- I - No bank reconciliations were carried out between November 2019 and June 2020. The bank at 31 March 2020 has now been reconciled and the correct balance included in Box 8 of Section 2 of the AGAR.

Conclusion

Based on the tests I have carried out, in my view, the internal control procedures require improvement, and are currently not adequate to meet the needs of Batheaston Parish Council.

Next Steps

This report should be noted and taken to the next meeting of the Parish Council. The Council should decide what action will be taken on the recommendations I have made.

Next Steps - continued

The Council has significant weaknesses in its governance and financial procedures as highlighted by my recommendations above. It was difficult to undertake the internal audit work necessary in one visit. I suggest that the Council has two internal audit visits for 2020-21, one mid-year to review the implementation of my recommendations and to undertake transaction testing, and a second post year end visit to review the year end processes, and activities of the Council during the year.

In my view it is important that the Council address its governance and financial process weaknesses before it considers embarking on any major projects in the future.

Kind regards

Yours sincerely



Bridget Bowen FCA

Internal auditor