

Annex 1



6 Uplands Road
Farnham GU9 8BP

Iain Lynch

Farnham Town Council

6 December 2021

Dear Iain

Farnham Town Council

Internal Audit 2021-22– Interim Audit Report

Following the interim audit completed on 9 November and follow up work, I attach my report for consideration by the Council. This was the first of three audits I intend to carry out to support my opinion on the 2021-22 Annual Governance and Accountability Return (AGAR). I covered the following at this visit:

- Review of opening balances and reporting of 2020-21 audit opinion
- Follow up previous recommendations
- Testing of expenditure first 6 months of financial year
- Testing of income – first 6 months of financial year
- Risk management and insurance
- Salaries and wages
- Budget monitoring reports
- Bank reconciliations.
- Trusts

I am pleased to report that overall Council has robust system of financial control. I have raised a number of recommendations; these are at Appendix A. I would consider none of these to be major, and the recommendations should be considered as a result of a fresh set of eyes reviewing the Council's financial systems.

The Accounts and Audit Regulations 2015 require smaller authorities, each financial year, to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement in accordance with proper practices in relation to accounts. The internal audit reports should therefore be made available to all members to support and inform them when they are considering the Authority's approval of the annual governance statement.

I am required by Section 4 of 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 testing carried out at the interim audit.

I would like to thank you and the Council staff for their help with the audit.

A: Books of Account

First Interim Audit

The Council uses the RBS Omega accounting system to report and record the financial transactions of the Council. This is a well-established accounting system specifically designed to be used in the town and parish council sector. A review of the cashbook shows that all data fields are being entered and supporting documentation is easily located from references recorded on the general ledger. Accounting records and all reconciliations tested were up to date at the time of the audit. I checked access controls to the Council's accounting system. I was able to confirm that all access levels were appropriate for the officers concerned. I noted that 3 ex members of staff still had read access to RBS Omega. These profiles have now been closed off. I recommend that Omega is checked periodically to ensure all user profiles are set appropriately.

I have tested the brought forward balances in the accounting system against the audited prior year annual return. I can confirm these have been brought forward correctly. The opening balance sheet showed a value of £1,736,178. This agrees to box 7 of the audited 20-21 accounts.

At my first visit on 22nd September, I confirmed that the Council's VAT returns were up to date, with the most recent claim for the 3 months to 30 June 2020 submitted to HMRC in July 2021. I checked that balances in the return could be agreed to schedules produced by the accounting system. The quarter 2 return has subsequently been submitted to HMRC.

The Council is registered for VAT with HMRC, has no partial exemption and has elected to tax 3 buildings :

- West Street Chapel
- Wrecclesham Community Centre
- Hale Chapels

The Council received a clear audit certificate from the external auditors in 2020-21, so there is nothing to take forward to the current accounting year.

I am satisfied the Council meets the requirements of this control objective.

B: Financial Regulations & Payments

Interim Audit

Governance

Financial Regulations were last reviewed and approved at the Full Council meeting in September 2020. These regulations are based on the template provided by NALC and are

thus compliant with sector best practice. Standing Orders were revised and adopted in March 2021, and the Members Code of Conduct updated in April 2019.

The Council has elected to adopt the General Power of Competence(GPC). I confirmed that this was reaffirmed after the May 2019 elections, and properly recorded in the minutes of the May 16th 2019 meeting of Full Council. The council meets the criteria for GPC.

I discussed the use of working groups at the Council with the Town Clerk, in the light of advice issued by NALC. The Council is confident that regulations are being followed in this area, as it is Full Council that makes decisions, not working groups. The Town Clerk confirmed that advice has been received from SALC.

I checked that acceptance of office and declaration of interest forms for a sample of councillors. All records were in good order.

Expenditure and payments to suppliers

The Council has a clear procedure for making payments to third parties. A payment run is processed each Wednesday by the Council's Bookkeeper, who collates invoices due for payment. These invoices are matched to purchase orders that have been authorised by the relevant budget holder, and countersigned by the Town Clerk.

The invoice is then entered on to the purchase ledger by the Bookkeeper, and is marked as ready for payment. A BACS run is produced by the accounting system, this is checked and loaded into the Council's bank account, where payments sit ready for authorisation by the appointed councillors.

2 councillors are required to authorise each payment. The bookkeeper sends the following information to these councillors by email:

- List of purchase ledger payments from Omega accounting system
- Copy of BACS run from bank account

At each meeting of the Finance Working Group, details of all payments made are made available for inspection by councillors.

This is a robust system, compliant with Financial Regulations and with evidence separation of duties within the payment process.

I selected a sample of 10 expenditure transactions from the cashbook, and I was able to confirm for all transactions that:

- Transactions could be agreed back to a VAT invoice
- Purchase order was on file, authorised by the Town Clerk and budget holder
- VAT accounting correct
- Expenditure appropriate for the Council

I have two observations:

- BACS files produced by the accounting system were being stored in the K drive of the Council's document filing system, which can be accessed by all Council staff. BACS files can be easily amended and should not be stored in such an open location. I therefore recommend that BACS files are deleted or stored securely once the BACS run has been processed.
- At the time of my audit (3 November) the standing order transactions for August had not been signed off by councillors. This should ideally be completed with 2-3 weeks of each month end.

Transparency

The Council publishes information relevant to the 2015 Transparency Code in the "Openness and Transparency " section of the website. Information on payments, and procurement was up to date at the time of my audit. Information on grant awards made by the Council should be added to this webpage, this cannot be easily located at present.

C: Risk Management & Insurance

Interim Audit

The Council has a risk management strategy in place and monitors and reviews risk on an ongoing basis. An annual risk assessment is completed by independent consultants, Ellis Whitton. This is due to be considered at Strategic Finance Committee in January and will then be reviewed at Full Council in either January or March. I will review the risk assessment at my next audit, but I am satisfied that arrangements are in place to provide proper approval of the risk assessment before financial year end.

I reviewed the Council's insurance policy with Zurich Municipal, and checked asset cover on the insurance policy. The Gostrey Meadow play area was not listed on the list of assets insured. I therefore recommend that this is discussed with the insurers and insurance amended if necessary.

D. Budget, Precept & Reserves

Interim Audit

The Council is in the process of preparing the budgets for 22-23. The Town Clerk has shared the budget setting timetable with me and there are clear arrangements in place to ensure that budget and precept are approved at Full Council on 27 January 2022. All precepting authority deadlines should therefore be met.

I have confirmed that regular budget monitoring reports are issued to the Strategy and Finance Working Group . The following reports are available for examination at this meeting, and are produced each quarter.

- Trial Balance
- Income and expenditure report
- Debtors outstanding
- Statement of investments

The September reports were reported to the October 12 meeting, so financial reporting is timely. I reviewed the budget monitoring report. At the end of period 6 expenditure amounted to around 44% of budget, the Council appeared to be on track to meet the 21-22 budget.

I will review the Council's reserve position at my final audit .

E. Income **Interim Audit**

I selected a sample of income transactions from the cashbook. For all transactions sampled, I was able to confirm the following:

- Cashbook transaction agreed to schedule of deposits received
- Cashbook transaction checked to receipt at bank
- Highest value item agreed to invoice
- Invoice agreed to relevant schedule of fees and charges or other supporting documentation
- VAT accounted for correctly

The Council receives significant numbers of cheques particularly for payments for cemeteries and allotments. These are time consuming to process and access to banks to pay in cheques is becoming more difficult. I recommend that the Council should change terms and conditions to require customers to settle accounts by bank transfer or direct debit, apart from certain exceptional circumstances.

Fees for cemeteries and Invest in Farnham have not been reviewed since 20-21. It is a requirement of financial regulations that

“ The council will review all fees and charges at least annually, following a report of the Town Clerk during the budget setting cycle. “

Going forward, Council fees should be set as part of annual budget setting.

I have reviewed the Council's debtors ledger. At the time of the audit, debts outstanding stood at £11,513. The majority of this debt can be considered as current debt as is less than three months old, and relates to current projects. The debtors ledger is well managed.

F. Petty Cash

Interim Audit

I reviewed the petty cash file at my first interim audit on September 23rd. The petty cash balance on the ledger had been reconciled to the petty cash balance each month, with evidence of regular petty cash counts. The cash balance is generally held at £300, which is not excessive for a Council of this size. I reviewed details of expenditure on file, all expenditure seemed appropriate, items such as milk for the office , batteries and other low value consumables.

I am satisfied that the Council meets the requirements of this control objective

G. Payroll

First Interim Audit

The Council's payroll is processed by Moorepay. Each month the Town Clerk inputs all monthly changes to payroll. Monthly amendments are input direct by the Clerk into Moorepay as follows

- Staffing changes - these are input into the payroll application in line with agreed start and finish dates
- Events – The Events Manager confirms all staff who have worked on events by email, and this information is input into payroll
- Non full-time staff and overtime - Timesheets are completed by staff and these are authorised by the relevant manager. Details of hours worked are recorded in the payroll system

Once all input has been complete, the Clerk reviews payroll. Payroll is then processed by Moorepay, who set up and pay staff by BACs from the Council's bank account.

I tested the June and September payroll, 3 staff payments selected from each month. I was able to agree

- Cashbook entry for payroll for each month back to Payroll report
- Pay for each officer selected back to individual payroll report on Moorepay
- Checked gross pay to appropriate pay scale point
- Overtime / events payment, checked to record of additional time worked
- Evidence of councillor review of payroll

For all transactions tested, I was able to confirm payroll has been processed accurately.

H. Assets and Investments

Final Audit Test

I: Bank Reconciliations

First Interim Audit

The Current Account is reviewed twice a week by the bookkeeper, and transactions are matched off against the cashbook as they are recorded in the Council's bank account. This is a strong control against fraud and error and ensures all income records are kept up to date. Formal reconciliation is performed promptly at each month end, by the Bookkeeper, prior to review by the Accountant. This system is compliant with the requirement of financial regulations. There is strong separation of duties, with the accounts maintained and reconciled by officers with no signatory powers, and reporting of balances to councillors.

At 31 October 2021, the Council held the following bank and investment balances. I have reperformed month end reconciliations for accounts highlighted in green . Accounts highlighted in yellow are maintained as balance sheet accounts and are not included in the monthly bank reconciliation process. The account highlighted in orange is a long term investment and is correctly included in the asset register. Bank statements are only issued annually for the majority of the investment accounts.

Account	Balance at 31 October 2021	Reconciliation review by Internal Audit
Current Account	£81,537	Reconciled to 30.10.21. Cashbook agreed to bank
Mayors Charity Account	£7,699	Reconciled to 30.10.21. Cashbook agreed to bank
Moneymaker Call Account	£530,678	Reconciled to 30.10.21. Cashbook agreed to bank
Petty cash	342	Reconciled to 30.10.21.
Money Maker investment 1	£200,000	Operated as balance sheet account
Money Maker investment 2	£300,000	Operated as balance sheet account
CCLA investment Account	£800,000	Operated as balance sheet account
Cambridge and Counties Deposit account	£237,498	Operated as balance sheet account
Money Maker investment 1	300,000	Operated as balance sheet account
Nationwide	£101,991	Operated as balance sheet account
CCLA Property Fund (shown as investment asset, not on balance sheet)	£250,000	Long term investment, correctly accounted for on asset register
TOTAL Cash and investment balance at 31.10.21	£2,809,745	

I recommend that all investment accounts (highlighted in yellow) are reclassified as cashbook accounts on the Omega accounting system. These should be reconciled to the most recent bank statements whenever these become available. Omega bank reconciliation reporting can be used to present monthly reports on bank and investment account balances to councillors.

J. Year-end accounts

Year end work

L: Exercise of Public Rights - Inspection of Accounts

The inspection notice for 20-21 has been archived from the website. I recommend that this should put back on the website, the external auditors will check this as part of year end processes. I will check this has been completed correctly at my next audit.

N: Publication requirements 2020 AGAR

The Council received a clear audit opinion from the external auditors for 2020-21. This was dated 15th September, and the Council has published the complete audited AGAR on the website, as required by regulations. The Conclusion of Audit notice was published on the Council website on 23 September, before the regulatory deadline of 30.9.21. The external audit certificate was reported to the October meetings of Strategy and Finance Committee and Full Council.

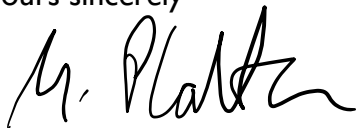
I am satisfied regulatory requirements have been met in this area.

0. Trusteeship

The Council is trustee of the Farnham School of Science and Arts, also known as the Farnham South Street Trust, Charity Number 1146152. A separate company is operated on the Omega Accounting system, I can therefore confirm separate books of account are maintained for the Charity. The Trust holds separate meetings, these are minuted and minutes and agenda published on the Town Council website. The 20-21 annual return was submitted on 29 October 21. The Accounts have not yet been submitted, the Council should ensure these are submitted by 31 January 2022. The Accounts were submitted late for 2 previous years.

I attach my invoice for your consideration. I will be in touch in the new year to make arrangements for my next visit, which will be in March. I will complete my audit in April next year in line with the Council's year end closedown timetable.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Platten', written in a cursive style.

Mike Platten CPFA

Points Forward – Action Plan - Interim Audit

Matter Arising	Recommendation	Council Response
<p>I noted that 3 ex members of staff still had read access to RBS Omega. These profiles have now been closed off.</p>	<p>I recommend that Omega is checked periodically to ensure all user profiles are set appropriately.</p>	
<p>BACS files produced by the accounting system were being stored in the K drive of the Council's document filing system, which can be accessed by all Council staff. BACS files can be easily amended and should not be stored in such an open location.</p>	<p>I recommend that BACS files are deleted or stored securely once the BACS run has been processed.</p>	
<p>At the time of my audit (3 November) the standing order transactions for August had not been signed off by councillors.</p>	<p>This should ideally be completed with 2-3 weeks of each month end.</p>	
<p>The Gostrey Meadow play area was not listed on the list of assets insured.</p>	<p>I recommend that this is discussed with the insurers and insurance amended if necessary.</p>	
<p>The Council receives significant numbers of cheques particularly for payments for cemeteries and allotments. These are time consuming to process and access to banks to pay in cheques is becoming more difficult.</p>	<p>I recommend that the Council should change terms and conditions to require customers to settle accounts bank transfer or direct debit, apart from certain exceptional circumstances.</p>	

<p>Fees for cemeteries and Invest in Farnham have not been reviewed since 20-21. It is a requirement of financial regulations that</p> <p>“ The council will review all fees and charges at least annually, following a report of the Town Clerk during the budget setting cycle. “</p>	<p>Going forward, Council fees should be reviewed as part of annual budget setting</p>	
<p>Farnham South Street Trust, Charity Number 1146152</p>	<p>The Accounts have not yet been submitted, the Council should ensure these are submitted by 31 January 2022. The Accounts were submitted late for 2 previous years.</p>	
<p>The inspection notice for 20-21 has been archived from the website</p>	<p>I recommend that this should put back on the website, the external auditors will check this as part of year end processes.</p>	
<p>Bank reconciliations - investment accounts</p>	<p>I recommend that all investment accounts (highlighted in yellow) are reclassified as cashbook accounts on the Omega accounting system. These should be reconciled to the most recent bank statements whenever these become available. Omega bank reconciliation reporting can be used to present monthly reports on bank and</p>	

	investment account balances to councillors.	
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