

# April Skies

## Accounting

Iain Lynch  
Town Clerk

Farnham Town Council

5 January 2023

Dear Iain

### **Farnham Town Council - Interim Audit 22-23**

Following the interim audit completed on 30 November, 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 22-23 Annual Governance and Accountability Return (AGAR). I covered the following at this visit:

- Review of opening balances and reporting of 21-22 audit opinion
- Follow up previous recommendations
- Testing of expenditure first 7 months of financial year
- Testing of income – first 7 months of financial year
- Risk management and insurance
- Salaries and wages
- Budget monitoring reports
- Arrangements for inspection of accounts
- Bank reconciliations.

I am pleased to report that overall Council has successfully maintained a strong system of financial control. I have 5 recommendations to raise, these are at Appendix A.

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.

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### **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 have tested the brought forward balances in the accounting system against the audited prior year annual return. There appears to be a small imbalance

Opening balance 21-22	- £1,915,694
Box 7 Audited 21-22 accounts	- £1,916,346
Difference	- £ 652

This imbalance is likely to be due to a small glitch on one or two transactions. This should be examined and the opening balance should be brought back into balance with the 21-22 audited accounts.

At my first visit on 22<sup>nd</sup> September, I confirmed that the Council's VAT returns were up to date, with the most recent claim for the 3 months to 30 September 2022 submitted to HMRC in November 2022. I checked that balances in the return could be agreed to schedules produced by the accounting system.

The Council received a clear audit certificate from the external auditors in 2021-22, so there is nothing to take forward to the current accounting year.

### **B: Financial Regulations & Payments**

#### **First 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 March 2022.

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### **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 of separation of duties within the payment process.

I selected a sample of 12 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
- For internal bank transfers recorded on the cash book, I checked debits and credits on relevant bank statements.

I have one observation:

- BACS files produced by the accounting system are now in the F drive of the Council's document filing system, which is password protected and restricted to Bookkeeper, Accountant and Town Clerk. I do not believe that BACS files should be retained, there is a small risk that these could be erroneously used. I therefore recommend that the BACS files are deleted once the payment run has been authorised at bank by Councillors.

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### **C: Risk Management & Insurance**

#### **First Interim Audit**

The Council has a risk management strategy in place and monitors and reviews risk on an ongoing basis. 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. The Town Clerk has confirmed that a review is due from the Council's risk consultants, Ellis Whittam, and that this is due before the end of the financial year. 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.

The Council is insured by Zurich Municipal, on a standard local authority policy. I reviewed the Council's insurance schedule. The policy was in date, with an expiry date of 30 April 2023. 8 buildings are insured, with an insurance value of £3.7 million. Other assets insured include Christmas lights at £70K, bus stops at £90K and CCTV at £93K. Gostrey Meadow playground is not listed separately on the insurance schedule. The Town Clerk has contacted the insurer and confirmed the playground is included on the public liability insurance. Further confirmation should be sought to ensure playground and other assets are properly insured.

Fidelity insurance cover is set at £2million. This may not be sufficient, given cash and investment holdings of around £3million at the time of my audit (Checked to October 2022 balance sheet) The level of fidelity cover should therefore be raised with the insurer.

### **D. Budget, Precept & Reserves**

#### **First Interim Audit**

The Council was in the process of finalising the budgets for 23-24 at the time of my audit. The Strategy and Finance group discussed and approved a draft budget at the meeting of 8 December 2022, this was tabled for approval at the Full Council meeting on 15 December. The Town Clerk has shared the budget setting timetable with me and there are clear arrangements in place to ensure that budget and precept will be approved at Full Council on 27 January 2023. 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. Quarter 2 outturn report was presented to the October meeting and subsequently to Full Council. 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

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The September reports were reported to the October 14<sup>th</sup> meeting, so financial reporting is timely. I reviewed the budget monitoring report. At the end of period 6 expenditure amounted to around 58% of budget, and income was slightly ahead of budget.

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

### **E. Income**

#### **First Interim Audit**

I selected a sample of income transactions from the cashbook for the first 7 months of the financial year. 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
- Events invoices agreed to booking records
- VAT accounted for correctly

My sample covered burial fees, food festival , lease income and events income. I am satisfied that the Council is billing accurately and collecting income across all income streams tested. I have one recommendation.

- West Street Market fees and the rent for Wrecclesham Community Centre should be reviewed annually and approved by Council alongside other fees and charges, to ensure compliance with financial regulations.

I have reviewed the Council's debtors ledger. At the time of the audit, debts outstanding stood at £9,469 , virtually all debts were less than 43 days old . The debtors ledger is well managed.

### **F. Petty Cash**

To be reviewed at second interim audit

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### **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 August payroll. I selected a sample of 3 staff payments from the payroll. 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
- Evidence of councillor review of payroll
- Overtime could be agreed to a timesheet record of hours worked, or schedule of events staff, appropriately authorised.

I also reviewed the Council's PAYE account with HMRC – all payments were up to date.

### **H. Assets and Investments**

Year end 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.

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At 31 October 2022, 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 only reconciled as part of year end accounting procedures, bank statements are only issued annually for the these investment accounts. The account highlighted in orange is a long term investment and is correctly included in the asset register. I will check these accounts as part of my year end audit

Account	Balance at 31 October 2022	Reconciliation review by Internal Audit
Current Account	£146,301	Reconciled to 30.10.21. Cashbook agreed to bank
Mayors Charity Account	£2,241	Reconciled to 30.10.21. Cashbook agreed to bank
Moneymaker Call Account	£1,026,363	Reconciled to 30.10.21. Cashbook agreed to bank
Money Maker investment 1	£200,000	To be checked at year end , annual statements issued by bank
Money Maker investment 2	£300,000	To be checked at year end , annual statements issued by bank
CCLA investment Account	£700,000	Reconciled to 30.10.21. Cashbook agreed to bank
Cambridge and Counties Deposit account	£240,995	Reconciled to 30.10.21. Cashbook agreed to bank
Money Maker investment 1	300,000	To be checked at year end , annual statements issued by bank
Nationwide	£101,991	To be checked at year end , annual statements issued by bank
CCLA Property Fund ( shown as investment asset, not on balance sheet)	£250,000	Long term investment, To be checked at year end , annual statements issued by bank
<b>TOTAL Cash and investment balance at 31.10.22</b>	<b>£3,066,082</b>	

I am satisfied the system of bank reconciliations is operating effectively.

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## J. Year-end accounts

Year end test

**L: : The Authority publishes information on a free to access website/webpage up to date at the time of the internal audit in accordance with any relevant transparency code requirements**

Test at second interim and final audits

## M: Exercise of Public Rights - Inspection of Accounts

Inspection periods for 2021-22 accounts were set as follows

Inspection - Key date	2021-22 Actual
Accounts approved at Full Council	28 April
Date of Announcement	5 June
Inspection period begins	13 June
Inspection period ends	22 July
Correct length	Yes

I can confirm that regulations were followed and that the Council can therefore sign off that it has met control objective 4 on the annual governance statement – inspection rights.

## N: Publication requirements 2022 AGAR

The Council received a clear audit opinion from the external auditors for 2021-22. This was dated 10<sup>th</sup> 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 29 September, before the regulatory deadline of 30 September. The external audit certificate was reported to the October meetings of Strategy and Finance Committee and Full Council. ( Agenda item 4 October Strategy and Finance Working Group)

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 - meeting last held on 5 November 2022. The 21-22 annual return was submitted on 29 October 2022, with the accounts submitted on 29 November 2022. All Charity Commission deadlines were met.

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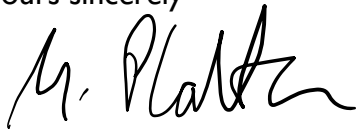
## Accounting

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The accounts have been subject to an independent examination, as required for a charity with turnover in excess of £25K. I am satisfied that the Council has met this control objective.

I would like to thank you and the team at the Council for your assistance with the audit. I attach my invoice for your consideration, and I will be in touch later this month to make arrangements for the second interim audit.

Yours sincerely



Mike Platten CPFA

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### Appendix A

#### Points Forward – Action Plan - Interim Audit

Matter Arising	Recommendation	Council Response
<p>I have tested the brought forward balances in the accounting system against the audited prior year annual return. There appears to be a small imbalance</p> <p>Opening balance 21-22 - £1,915,694</p> <p>Box 7 Audited 21-22 accounts - £1,916,346</p> <p>Difference - £ 652</p>	<p>This imbalance is likely to be due to a small glitch on one or two transactions. This should be examined and the opening balance should be brought back into balance with the 21-22 audited accounts.</p>	<p><i>FTC Accountant is resolving this issue with the Rialtas Business Systems Accounting Software team</i></p>
<p>BACS files produced by the accounting system are now in the F drive of the Council's document filing system, which is password protected and restricted to Bookkeeper, Accountant and Town Clerk.</p>	<p>I do not believe that BACS files should be retained, there is a small risk that these could be erroneously used. I therefore recommend that the BACS files are deleted once the payment run has been authorised at bank by Councillors.</p>	<p><i>Recommendation accepted and now incorporated as part of the month end processes.</i></p>
<p>Gostrey Meadow playground is not listed separately on the insurance schedule. The Town Clerk has contacted the insurer and confirmed the playground is included on the public liability insurance.</p>	<p>Further confirmation should be sought to ensure playground and other assets are properly insured.</p>	<p><i>Clarification sought from Zurich and will be specifically included in the 2023-24 renewal</i></p>

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<p>Fidelity insurance cover is set at £2million. This may not be sufficient, given cash and investment holdings of around £3million at the time of my audit (Checked to October 2022 balance sheet)</p>	<p>The level of fidelity cover should therefore be raised with the insurer.</p>	<p><i>Recommendation accepted</i></p>
<p>Fees and charges</p>	<p>West Street Market fees and rent for Wrecclesham Community Centre should be reviewed annually and approved by Council alongside other fees and charges, to ensure compliance with financial regulations.</p>	<p><i>Agreed. Included in the 2023-24 Fees and charges list.</i></p>

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