
Fernhurst Parish Council

Internal Audit Report 2019-20 (Final Update)

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For and on behalf of
Auditing Solutions Ltd

Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return.

This report sets out the work undertaken in relation to the Internal Audit for the 2019-20 financial year; the Interim review which took place on the 14th January 2020 and the Final Update review which took place on the 08th June 2020.

Internal Audit Approach

The final update review of the 2019-20 financial year, necessary to complete the Internal Audit process has been undertaken remotely due to the Covid-19 virus situation and in accordance with Government advice. All files and supporting document required to complete the audit have been supplied by the Clerk & Responsible Finance Officer, as requested, electronically.

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / Annual Return. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's Annual Governance and Accountability Return (AGAR) process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

Based on the satisfactory completion of our programme of work for the year, we have concluded that the Council has, again maintained adequate and effective internal control arrangements. We made only two formal recommendations for improvement during the interim review of the year, both of which have been acted upon by the Council. The responses are recorded in the main body of this report and in the attached action plan. We have not made any further recommendations for improvement during the final review process of this financial year.

We understand that the last few months of the 2019-20 financial year have been particularly challenging for councils, both in terms of their day to day operational and administrative functions during this unprecedented crisis. We take this opportunity to acknowledge the swift transition into an irregular working regime, which has been successfully managed by the Clerk and the Members and which has proven suitable and effective for the Council's needs. We would like to thank the Clerk/RFO for his assistance during this somewhat challenging remote final update review of the financial year which has ensured the smooth and successful progress of the Internal Audit.

We have completed and signed the 'Internal Audit Report', having concluded that the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council. We ask that members consider the content of this report and acknowledge that the report has been formally reviewed and adopted by Council.

Detailed Report

Review of Accounting Arrangements & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers to date. The Council currently operates a current and reserve bank account at NatWest, supplemented by a deposit account at NSI. To meet the above objective we have: -

- Agreed the opening trial balance detail in the Alpha software for 2019-20 with that in the closing 2018-19 Statement of Accounts;
- Ensured that the ledger remains in balance as at the 31st March 2020;
- Ensured that an appropriate cost centre and accounting structure remains in place;
- Checked and agreed transactions (both receipts and payments) in the Council's combined bank account cashbooks to the relevant bank statements in full (due to the low volumes of transactions) for the year to 31st March 2020;
- Similarly, checked and agreed the one interest receipt on the NS&I savings account to the 31st March 2020; and,
- Checked detail on the bank reconciliations to the 31st March 2020 to ensure that no long-standing uncleared cheques or anomalous entries exist and agreed the closing bank reconciliation for the Council as a whole to all three separate bank account statements with no issues arising. We note that the Chair continues to "sign off" the monthly reconciliations which are routinely provided to members at each Full Council meeting.

Conclusions

There are no matters arising in this area of our review that warrant formal comment or recommendation.

Review of Corporate Governance

Our objective is to ensure that the Council has a robust series of corporate governance documentation in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have: -

- Noted that the Council received an unqualified External Audit report for FY 2018-19;
- Reviewed the Minutes of the Full Council, the Finance & Policy Committee and the Property, Highways & Environment Committee meetings for the full year to the 31st March 2020 to identify whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability, also ensuring that the Council has neither considered nor is considering any actions that may result in ultra vires expenditure; and,
- Noted that the Council's Standing Orders and Financial Regulations were revised to ensure that they were as 'gender neutral' as possible. The Standing Orders were

subsequently adopted in the November 2019 meeting of the Full council, under Minute reference 157/19, and are now based on NALC model documents.

Conclusion

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and approved budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and,
- VAT has been appropriately identified and coded to the control account for periodic recovery.

Due to the low level of transactions we have examined 100% of all transactions that have been recorded to the 31st March 2020.

We noted that manual VAT recovery claims continue to be submitted annually. The VAT claim for FY 2018-19 in the amount of £8,613.60 having been duly completed and submitted on the 16th April 2019 which was settled in full. The FY 2019-20 VAT claim had been prepared and correctly accrued for in the year-end balance sheet, pending submission and repayment in the amount of £7,481.

Finally, in this area of our review we identified that, despite our advice in prior year Internal audit reports, the Council is still awarding grant aid to a local school although it has no statutory Power under which it may lawfully do so. We refer the Council to Charles, Arnold Baker (11th edition) in this regard.

Conclusions

There are no further matters arising during the Year-End review warranting formal comment or recommendation.

Conclusions and recommendations made during the Interim review

We have identified in the Councils Cashbook's that it is recording VAT invoices for supplies, that have been incurred as their contractors' expenses, as if they had been directly incurred by the Council to facilitate the reclamation of VAT. Therefore the information recorded in the cashbook does not accurately reflect the payment information authentically incurred by the Council and all transactions that have been entered in this manner must be journaled off the finance system and re-entered correctly with the full invoice amount

being correctly recorded as having been paid to the supplier as detailed on the electronic or cheque payment. The Council is not entitled to reclaim VAT that it has not, itself, paid for directly.

The Council must not reclaim VAT to which it is not entitled: Payments that have been inaccurately recorded must be corrected prior to the Year End Audit and the 2019-20 VAT return being submitted to HMRC.

As previously advised in our 2017-18 Internal Audit Report. Parish Council's have no power whatsoever to lawfully award Grant Aid to a school and Fernhurst Parish Council should refrain from doing so in future.

- R1. *The Clerk must, as soon as it is practicably possible, correct the Council's main current account Rialtas cashbook to ensure that all payments that have been made by the Council are accurately recorded and not improperly split out to facilitate the reclamation of VAT to which it is not entitled. **Response: Cashbook has been corrected.***
- R2. *The Clerk must ensure that the no further awards of Grant Aid are made to any school. As previously advised Town and Parish Councils do not have the statutory power to do so as they are not Principal Councils. **Response: Noted.***

The Clerk is advised to revert to the SLCC and Charles Arnold Baker, 11th edition page 147 for further guidance to ensure that Members are issued with the proper regulations when considering any future requests for the award of Grant Aid.

Review of Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks identified in order to minimise the opportunity for their coming to fruition.

We note that the Council has, as is required, undertaken a robust review both its Health & Safety and Business Risk registers during the financial year and has formally adopted these at the March 2020 meeting of the Full Council under Minute reference 47/20.

The Council's insurance schedule for the current year (to March 2019) has been examined, with cover provided by the Local Councils Insurance Scheme, Arranged by BHiB Insurance Brokers and underwritten by Aviva Insurance Ltd. We note that Employers' and Products & Public Liability are both in place at £10 million, Officials Indemnity at £500,000, Legal Expenses at £150,000, Fidelity Guarantee cover at £150,000, Business Interruption £50,000. This level of cover is considered appropriate for the Council's present needs.

Finally, in this area of our review we note that the Council's single playground is now inspected by the Village Handyman, or the Clerk in his absence. Both have received informal inspection training from a qualified Playground Inspector and the Village Handyman has just successfully completed a RoSPA Playground Inspector training course.

The Village Handyman is now responsible for conducting playground inspections on a weekly basis and submits inspection reports to the Clerk for his retention. The Annual Independent Playground Inspection is conducted by RoSPA.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Budgetary Control & Precept Determination

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the District Council, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

- We note that members continue to receive regular finance reports including bank reconciliations and budgetary analysis;
- We further note that the Precept request made for the 2020-21 financial year was the result of a robust Budget setting and Precept determination process, undertaken at the Finance Committee, with the Precept subsequently being adopted at the December 2020 meeting of the Full Council in the amount of £72,600 with the budgeted deficit of £48,325 being funded from the Council's Reserves, under Minute Reference 174/19; and,
- Finally, in this area, we note that Total Reserves as at 31st March 2020 stood at £139,286 (£139,166 in the prior year), comprising specific Earmarked items of £53,352 (unchanged) and the residual General Reserve of £85,934 (£85,814 in the prior year), the latter representing almost 11 months' revenue expenditure at FY 2019-20 levels, which is considerably higher than the current Chartered Institute of Public Finance and Accountancy (CIPFA) guidance in this area, which recommends the retention of between three and six months general reserves based on prior year spending. However, we note that the Council has elected to retain the Precept request at the prior year level making up the budgeted deficit from its reserves which will bring the reserves back within the expected tolerances.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Income

In considering the Council's income streams, we aim to ensure that robust systems are in place to ensure that all income due to the Council from its various sources is identified and invoiced in a timely manner and effective procedures are in place to pursue of any outstanding monies due to the Council. To meet this objective, we have:

- Noted that the Council's income is made up of the Precept, Interment and related fees, CIL monies, Occasional Grants and VAT reclaim funds;
- Checked and agreed all transactions from cashbook receipts for the full year to the 31st March 2020 to current account bank statements and other supporting documentation as noted earlier in this report;

- Reviewed the Burials and memorials fees during FY 2019-20 noting that the fees had been reviewed and amended in August 2019; and,
- Similarly, checked and agreed all interest receipts arising on the reserve and NS&I from cashbooks to bank statements for the year to the 31st March 2020.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Petty Cash Account

The Council does not operate a petty cash account; any “out-of-pocket” expenses incurred being reimbursed by cheque payments authorised in the same manner as other supplier payments. Subsequently, there are no matters arising in this area of our review that warrant formal comment or recommendation.

Review of Salaries and Wages

In examining the Council’s payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions. To meet this objective, by reference to the month of August 2019 detail, we have:

- Ensured that the Council has approved staff pay rates for the financial year, where appropriate, and that these have been duly and accurately applied throughout the year;
- Checked the computation of staff member’s net pay and salary deductions, noting that the HMRC’s free software (PAYE Tools) is utilised “in house” for this purpose;
- Noted that the Council are making payments into the Clerk’s defined contribution pension scheme which is managed by AJ Bell Ltd.; and,
- Checked to ensure that the appropriate tax code and NIC table has been applied with tax and NI deductions / Council contributions calculated correctly and paid over to HMRC in a timely manner.

Conclusions

There are no matters arising in this area of our review that warrant formal comment or recommendation.

Review of Asset Register

The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March, annually. The 1996 Accounts and Audit Regulations (as amended from time to time) also required councils to develop and maintain a register of all assets. We aim in this area of review to ensure the accurate reporting of all asset values and that the Council is complying with the 1996 Regulations and latest reporting arrangements that require asset values to be recorded at “cost” or, where that value is unknown at the prior year reported value, subject to adjustment for any new additions or deletions.

The current Clerk has continued to maintain a detailed inventory of the Council's assets and equipment, detail of each asset being recorded and subject to annual update to reflect any new acquisitions and disposals and we have verified the total disclosed at Box 9, Section 2 of the Annual Return in the amount of £186,942 (£186,496 prior year).

Conclusions

There are no matters arising in this area of our review that warrant formal comment or recommendation.

Review Investments and Loans

Our objectives here are to ensure that the Council is "investing" surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

We note that the Council's surplus funds are maintained in a National Savings and Investment (NS&I) account. The year-end balances have been checked and verified as at the 31st March 2020.

Finally, in this area of our review, we note that the Council continues to maintain a formally adopted Investment Policy.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation.

Statement of Accounts and Annual Governance and Accountability Return

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is now in the form of the Annual Governance and Accountability Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

As part of our review process, we have examined the Council's procedures in relation to the identification of detail for inclusion in Section 2 of the Return, which is generated automatically by the Rialtas accounting software and we have agreed detail therein to Section 2 of the 2019-20 Annual Governance and Accountability Return.

Conclusions

We are pleased to record that no issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Report in the year's Annual Governance and Accountability Return assigning positive assurances in all areas.

Rec. No.	Recommendations	Response
Review of Expenditure		
R1	The Clerk must, as soon as it is practicably possible, correct the Council's main current account Rialtas cashbook to ensure that all payments that have been made by the Council are accurately recorded and not improperly split out to facilitate the reclamation of VAT to which it is not entitled.	<i>Response: The Cashbook has been corrected.</i>
R2	<p>The Clerk must ensure that the no further awards of Grant Aid are made to any school. As previously advised Town and Parish Councils do not have the statutory power to do so as they are not Principal Councils.</p> <p>The Clerk is advised to revert to the SLCC and Charles Arnold Baker, 11th edition page 147 for further guidance to ensure that Members are issued with the proper regulations when considering any future requests for the award of Grant Aid.</p>	<i>Response: Noted.</i>