

Fernhurst Parish Council

Internal Audit Report 2021-22 (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 2021-22 financial year; the Interim review which took place on the 9th December 2021 supplemented by the Final update review which took place on the 11th May 2021.

Internal Audit Approach

In commencing 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 process, which requires independent assurance over a number of internal control objectives.

We have noted that Members gave due consideration to the recommendations contained in our prior year report and implemented these. We report that, on the basis of the work undertaken to date in the current year, the Council continues to operate adequate and effective internal controls in all areas examined to date. Resultantly, only three recommendations for improvement have been made as a result of the annual reviews, recorded in the main body of the report and the appended Action Plan.

We have noted that the Council has complied, as far as it is possible to do so, with the Government's public health directives, as amended from time to time, maintaining a consistently high standard of service provision. The Council has also taken all reasonable steps to ensure the health and safety of its Staff, Members, Clients and members of the public utilising the Council's facilities. All modified and exceptional working practices are formally Reviewed, Resolved and Recorded in the Council's Minutes.

We commend not only the Clerk/RFO for his continued professional management and administration of the Council's finance and governance functions, but also the Members and Staff who have worked strenuously to maintain services for their constituents during these continued, challenging times. Once again, the manner in which the requested electronic documents and backup files have been presented by Clerk/RFO for audit was exemplary, making both the interim and final update audit review processes as straightforward as possible.

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 the National Westminster Bank, supplemented by a deposit account at National Savings & Investments. To meet this objective we have: -

- Agreed the opening trial balance detail in the Alpha software for 2021-22 with that in the closing 2020-21 Statement of Accounts;
- Ensured that the ledger remains in balance as at the 31st March 2022;
- 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 for the period of the 1st April 2021- to the 31st March 2022; and,
- Checked detail on the bank reconciliations of the 30th April .30th September and 31st December 2021, and 31st March 2022, agreeing the disclosed value to the year-end statements and noting that there were no out-of-date cheques recorded on the cashbook.

Conclusions

There are no matters arising in this area of our review warranting 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 a qualified External Audit report for FY 2020-21, due to the failure of the Council to formally review and adopt its Risk Registers during the financial year and additionally advertising an Exercise of Public Rights period of 45 days and not the 30 days that is required by statute;
- Noted that the Council has published the Notice of the Exercise of Public Rights for the FY2020-21 Annual Governance & Accountability Return for 40 days and not the 30 days required by statute;
- 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 2022 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;
- Noted that a number of quotations have been undertaken during the financial year, which have been conducted in accordance with the Council's Standing Orders and Financial Regulations; and,

- Noted that the Council's Standing Orders and Financial Regulations have been under review and were subsequently amended and Readopted at the 8th September 2021 meeting of the Full Council under Minute Reference 133/21 a) & b) respectively.

Conclusion and Recommendations

We have noted the External Auditor's comments in their report concerning the FY2020-21 accounts concerning the period of the Notice of the Exercise of Public Rights being advertised for 45 days and not the 30 days statutorily required. We further note that the period of the Notice of the Exercise of Public Rights for the 2020-21 financial year has been advertised as 40 days and not the 30 days statutorily required.

- R1. *The Clerk must ensure that the advertised period for the Notice of the Exercise of Public Rights is ONLY 30 working days as statutorily required. Noted.*

We have noted, as in the prior year, that the Council has made the award of Grant Aid during the financial year. As the Council does not qualify to adopt the General Power of Competence it is a mandatory requirement that the Power under which these awards are made is recorded alongside the Award of the Grant: I.e. The Award of Grant Aid in the amount of £2,500 to Fernhurst Cub Scouts under s.137 Local Government Act 1972 (Amended).

- R2. *We remind the Clerk that it is a statutory requirement to record the statutory Power under which all Grants are made, with the total amount of the Grant Awarded, remembering that the s.137 Power is the 'Power of last resort' and may only be used when no other power exists, and the applicant is not a prohibited organisation or individual. Noted.*

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 remote nature of the Interim audit, due to the Government's ongoing public health directives, we have examined 100% of all transactions that have been recorded from the 1st April to the 31st March 2022 with no issues arising.

We have examined a sample of payments for the financial year to date, ensuring that these had been correctly entered onto the Rialtas cashbook, VAT correctly recorded, and payment had been made within an appropriate period. The payment sample was conducted on the basis of

every non-pay related payment in excess £750.00 and every 20th payment irrespective of value. A total of 24 payments were examined totalling £75,172.02 and representing approximately 74% of all non-pay related payments.

Finally, in this area of our review we have noted that manual VAT recovery claims continue to be submitted annually. The VAT claim in respect of the 2021-22 financial year was submitted in the amount of £11,446.30 on the 13th April 2022.

Conclusions

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

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 undertaken the mandatory in-year review of its Health & Safety and Business Risk registers which were formally readopted at the 26th April 2021 meeting of the Full Parish Council under Minute Reference 54/21 of that date.

The Council's insurance schedule for the current year, Policy Number LCO01394 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, Libel & Slander at £250,000, Legal Expenses at £250,000, Fidelity Guarantee cover at £150,000, 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 continues to be 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 holds a RoSPA Playground Inspector certificate.

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.

We note from the Council's Minutes, that Health & Safety issues concerning the Councils playground are given appropriate consideration at each meeting of the Property Highways & Environment Committee, with remedial actions agreed under formal resolution.

Conclusion

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 Budget setting and Precept determination process for the 2022-23 financial year is again undertaken at the Finance Committee, prior to the draft Budget and Precept being submitted to the Full Parish Council for scrutiny at the 16th December 2021 meeting. The draft budget was Approved and Adopted under Minute reference 180a of that date and the Precept was Approved and Adopted under Minute reference 180b in the amount of £72,6000; and,
- Finally, in this area, we note that the Council has established nine formal Earmarked Reserves. Only two of the EMRs are active: EMR 322 - Asset Replacement Reserve and EMR 323 - Community Infrastructure Levy.

The Opening Balance for these EMRs as at the 1st April 2021 was £55,448.34, with Net Transfers of £2,036.59 in year resulting in a Closing Balance as of the 31st March 2022 of £57,484.93.

Finally, in this area of our review, we have noted that the Council's total managed funds as at the 31st March 2022 stood at £117,608 (*£118,529 prior year*), with funds totalling £57,485 (*£55,449 prior year*) held in Earmarked reserves designated for specific purposes as described above.

The residual General Reserve balance of approximately £60,123 (*£63,080 prior year*) equating to approximately eight months' revenue spending at prior year levels. This level of retained General Reserve sits slightly above the higher level of the current Chartered Institute of Public Financial Accountants (CIPFA) guidance to retain between three and six months' revenue spending based on the average prior year level. We deem this appropriate for the Council's budgeted spending requirements or the 2022-23 financial year.

Conclusions

As we advised in our prior year report, the Clerk/RFO and Members should ensure that the Council maintains its Earmarked reserves appropriately and sets aside the appropriate level of funds, in each EMR for each of its capital projects, and ongoing financial commitments. We note that there is no dedicated EMR for the ongoing tree projects, or for the Council's playground and that the Public Toilets EMR has not been utilised.

*R3. The Clerk/RFO and Members should agree the level of funds to be retained in the Council's EMRs and ensure that these are correctly recorded and administered in the Rialtas accounting software. **Noted.***

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, the New Homes Bonus, CIL monies, S.106 funding, Interest Received, Occasional Grants and VAT reclaims;
- Checked and agreed all transactions from cashbook receipts from the 1st April to the 30th September 2021 to the current account bank statements and other supporting documentation as noted earlier in this report; and,
- Have reviewed the records of interments and related income for the financial year to the 30th September 2021 with no issues arising.

Conclusion

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.

Conclusion

There are no matters arising in this area of our review warranting 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 July 2021 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 Sipdeal Trustees;
- 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;
- Noted that the Clerk/RFO is in receipt of a formal Pay advice slip; and,
- Noted that the Clerk's remuneration is due to be reviewed at the December 2021 meeting of the HR Committee.

Conclusions

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

Review of Fixed Asset Registers

The Governance and Accountability Manual (G&AM) requires all councils to develop and maintain a register of their asset stock. The Clerk has provided an electronic copy of the updated asset register which identifies the make-up of the value recorded in the Annual Return for our examination, which we have undertaken subsequent to our visit.

The Clerk maintains a detailed and robust Asset Register, recording assets at a consistent year on year level, as required by the Governance and Accountability Manual.

We are pleased to note that the register has been updated to reflect the cost of new acquisitions in the year and that the revised total value of £188,823 (£190,094 prior year) has been correctly reflected in the value reported in the year's Annual Return at Box 9 of Section 2.

Conclusions

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

Review Investments and Loans

Our aim in this area of review is to ensure that the Council has appropriate investment and borrowing strategies in place and that the most advantageous interest rates are being obtained.

We note that Members originally resolved to adopt an Investment Strategy on the 10th July 2019 in line with the Government guidance at that time. We further note that this strategy continues to be reviewed by the Clerk/RFO and Members.

The Council holds its funds in a National Westminster Bank Current and Reserve Account and the CCLA Public Sector Deposit Fund, on which monthly interest is received: as indicated earlier in this report, we have verified the appropriate receipt of that interest and its recording in the relevant cashbook.

As at the 31st March, the Town Council held funds, totalling circa £40,188 in its National Westminster Bank accounts, and £73,709 in its National Saving & Investment account as follows:

Account	Cashbook Number	Reconciled Value as at 31.03.22
Nat West Current Account	CB2	£10,201.84
Nat West Deposit Account	CB3	£29,986.09
National Saving & Investment	CB1	£73,709.29
		Total £113,897.22

The detail of each account has been checked and verified against the prime documentation, i.e. bank statements as at the 31st March 2022, cashbook entries and corresponding bank reconciliations and note that as at that date all the funds under the Council's management were protected by the Government's Financial Services Compensation Scheme (FSCS);

Finally, in this area of review we note that the Council has no loans owed either by it, or to it.

Conclusion

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

Statement of Accounts and Annual Return

The Council's Rialtas accounting system automatically generates the Management Accounts, Balance Sheet, Trial Balance, Income & Expenditure Accounts and Reserves reports as part of the software's year-end closed down procedure.

We have checked and verified these reports, against prime documentation, and consider that the Council's Accounting reports accurately records the 2021-22 financial year's transactions. The software also generates the detail for inclusion in the year's Annual Return, which we have also verified as being consistent with the accounting and other relevant supporting records.

We have also reviewed the procedures in place for identifying year-end debtors, creditors and accruals and agreed the detailed values recorded in the year-end Balance Sheet to the underlying records with no long-standing unpaid accounts or other issues arising.

Conclusion

We are pleased to record that there are no matters arising in this area of our review warranting formal comment or recommendation and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Certificate in the Annual Return assigning positive assurances in all areas with the exception of Internal Control Objective 'M':

"The Parish Council has demonstrated that during the previous year (2020-21) it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations."

For the reasons stated in the 'Review of Corporate Governance' section in this report.

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NOTE TO REPORT

We confirm that all confidential & sensitive information, supplied for the purposes of this audit including, Personnel Minutes, Payroll and Employment data have been permanently deleted from Auditing Solutions Ltd.'s servers and any printouts made for the purposes of this audit have been destroyed in accordance with the Company's data and document retention policies and with the prevailing General Data Protection Legislation.

Rec. No.	Recommendations	Response
Review of Corporate Governance		
R1	The Clerk must ensure that the advertised period for the Notice of the Exercise of Public Rights is ONLY 30 working days as statutorily required.	<i>Noted.</i>
R2	We remind the Clerk that it is a statutory requirement to record the statutory Power under which all Grants are made, with the total amount of the Grant Awarded, remembering that the s.137 Power is the 'Power of last resort' and may only be used when no other power exists, and the applicant is not a prohibited organisation or individual.	<i>Noted.</i>
Review of Budgetary Control & Precept Determination		
R3	The Clerk/RFO and Members should agree the level of funds to be retained in the Council's EMRs and ensure that these are correctly recorded and administered in the Rialtas accounting software.	<i>Noted.</i>