

## **Fernhurst Parish Council**

*Internal Audit Report 2020-21 (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 process for the 2020-21 financial year; the Interim review which took place on the 19<sup>th</sup> November 2020 and supplemented by the Final Update Audit of the 19<sup>th</sup> 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 mis recording or misrepresentation in the year-end Statement of Accounts / Annual Return. Our programme of cover, which has been modified in light of the Covid-19 directives under which Councils are required to operate, 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.

## **Overall Conclusions**

We have followed up the recommendations made in our 2019-20 reports and acknowledge that the members have noted and considered these in their deliberations and have implemented these. The Council has continued to make business processes and performance improvements, even in these challenging times. We have reviewed the Council's modified practices implemented to comply with the Government's Covid-19 directives, and 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 six recommendations for improvement have been made as a result of this review, recorded in the main body of the report and the attached Action Plan.

We have noted that the Council has complied, as far as it is possible to do so, with the Government's Covid-19 directives, 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 unprecedented and challenging times. Once again, the manner in which the requested electronic documents and backup files were presented by Clerk/RFO for audit was exemplary, making this remote interim review process as straightforward as possible during these unprecedented times.

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 2020-21 with that in the closing 2019-20 Statement of Accounts;
- Ensured that the ledger remains in balance as at the 31<sup>st</sup> March 2021;
- 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 April and June 2020 and March 2021, noting that the NS&I annual statement is, as in previous years, dated the 31<sup>st</sup> December (2020);
- Checked detail on the bank reconciliations of the 30<sup>th</sup> April and the 30<sup>th</sup> June 2020, and the 31<sup>st</sup> March 2021;
- Checked and verified the closing balances as at the 31<sup>st</sup> March 2021; and,
- Agreed the year-end balances as recorded on the Part 3 Accounting Statements of the Annual Governance and Accountability Return FY2020-21.

### *Conclusions and recommendation*

*No further matters were identified during the Final Update review, warranting formal comment or recommendation.*

### **INTERIM REVIEW**

*The is one out of date cheque, issued on the current account: Reference 844 dated the 13<sup>th</sup> November 2019 made to the Royal British Legion in the amount of £20.00.*

*R1. Cheque Number 844 should be cancelled and reissued or paid by BACS if required.  
Response: Implemented.*

## 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 2019-20, excepting that a minor comment was made about the Annual Return value not having been rounded up/down;
- Noted that the Council had correctly published the Notice of the Exercise of Public Rights for the FY2019-20 Annual Governance & Accountability Return;

- Noted that the Council continued to hold a full schedule of Full Council and Committee meetings throughout the year, safely and effectively via ZOOM;
- Noted that the Council has commenced the construction of a new website which can be located at <http://fernhurst-pc.gov.uk> . We further note that the old site is still active, and it appears at the top of search engine results. The Clerk/RFO and Members should consider having this old domain 'pointed' to the new domain to avoid confusion;
- Reviewed the Minutes of the Full Council, the Finance & Policy Committee and the Property, Highways & Environment Committee meetings for the full year to the 31<sup>st</sup> March 2021 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 one tender has been undertaken during the financial year, in respect of the Public Toilets refit, which has been correctly registered on the Government's Contracts Finder website; and,
- Noted that the Council's Standing Orders and Financial Regulations were reviewed and amended and were subsequently Adopted at the 9<sup>th</sup> September meeting of the Full Council under Minute Reference 98.

Finally, in this area of our review we have noted the Council's response to the challenges brought about due to the Covid-19 public-health directives, as advised by Central Government and amended from time to time during the 2020-21 financial year.

In accordance with the Council's Standing Orders and Financial Regulations, it has continued to deliver a high level of service to its constituents and has pushed forward with significant projects:

- Flooding Alleviant works in Vann Road were completed at no cost to local council tax payers, owing to the Council's successful application for funding from Operation Watershed, managed by West Sussex County Council;
- The Public Toilet facilities remained open at the Fernhurst Village Hall during the financial year. The Council developed a refurbishment and improvement scheme for these facilities, successfully put this out to tender on the Government's 'Contracts finder' portal with works commencing in January 2021, which are currently ongoing;
- Community support initiatives were put in place, including the replacement of public seating and the installation of additional grit-bins to support residents during periods of cold weather;
- Awards of Grant Aid were made to voluntary groups in the Parish including but not limited to: Fernhurst Village Hall, The Haslemere Food Bank, Fernhurst Lunch Club and the Fernhurst Horticultural Society;
- Notably, the Council procured eleven laptop computers for the exclusive use of Fernhurst Primary School pupils who were being disadvantaged whilst learning remotely. These laptops were donated to the Parents Teachers Association; and,
- The Parish Office was closed to visitors, but the Clerk continued to attend the office and was contactable by telephone and email, providing as normal a service as possible.

### ***Conclusion and Recommendation***

*There are no further matters arising in this area of our review warranting formal comment or recommendation. We take this opportunity to commend the Council on its proactive approach to its support of the community and its constituents during this year of unprecedented challenge.*

#### **INTERIM REVIEW**

*We have noted that although there is clear evidence of the Clerk and Members undertaking a robust Budget setting and Precept determination process for the 2021-22 financial year, it has omitted, in error, to record the Establishment of the Precept in the Council's minutes as required.*

R5. *The Clerk is reminded that it is a requirement to formally record in the Full Council's minutes, in separate line items, the Members Resolution to a) Approve and Adopt the budget for the forthcoming financial year, stating the amount of the budget, and, b) Approve and Establish the Precept for the forthcoming financial year, stating the full amount of the Precept.*

#### **INTERIM REVIEW**

*We have noted that the Council has made the award of Grant Aid to several recipients in 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. *The Clerk is required to record the statutory Power under which all Grants are made alongside the grant 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. **Response: Implemented.***

## **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 Covid-19 directives, we have examined 100% of all transactions that have been recorded for the Months of April and June 2020, and March 2021 with no issues arising.

We have examined a sample of non-pay related payments for the financial year to date: All payments in excess of £750 and every twentieth payment irrespective of Value, ensuring that

these had been correctly entered onto the Rialtas cashbook, VAT correctly recorded and payment had been made within an appropriate period.

During the Interim Review, a sample of 15 payments was examined. This sample was extended to 29 payments in total during the Final Update review of the year, equating to approximately £67,901 and representing 61% of all non-pay payments made during the financial year. All were checked and verified with no issues arising.

Finally, in this area of our review we have noted that manual VAT recovery claims continue to be submitted annually. The VAT reclaim for FY 2019-20 in the amount of £7,480.58 having been duly completed and submitted was settled in full on the 22<sup>nd</sup> July 2020.

We are pleased to note that the VAT reclaim for 2020-21 financial year had been submitted in the amount of £11,571.17 on the 19<sup>th</sup> April 2021.

### **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, despite our recommendation to the Council made in our Interim report of the year, there is no record of the Council having undertaken the mandatory in-year review of its Health & Safety and Business Risk registers. Resultantly a negative assertion must be given in Box 'C' of the Internal Control objectives in the AGAR Internal Audit report.

The Council's insurance schedule for the current year (to March 2021) 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. We note that the Council's policy allows for claims for financial loss due to "Extended Incidents of Notifiable Human Disease" with a maximum claim of £50K per incident. The Council could, if it wished to do so, make a claim for any financial losses incurred against its policy.

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 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.

We note from the Council's Minutes, that the Recreation and Play area was closed for a substantial period of the year, due to the Government's Covid-19 directives, and were only

reopened after due consideration by the Council, and with appropriate Health & Safety measures being put in place, after this advice had been amended.

### ***Conclusions and Recommendation***

***There are no issues arising in this area of our review warranting formal comment or recommendation. We take this opportunity to remind the Clerk/RFO and Members of the***

***R6. As advised during our Interim review of the year, it is a mandatory requirement to review, and formally Adopt the Council's Business and Health & Safety Risk Registers at least once, annually, said Adoption being recorded in the Minutes of the corresponding meeting of the Full Town Council.***

### ***INTERIM REVIEW***

***There are no issues arising in this area of our review warranting formal comment or recommendation. We take this opportunity to remind the Clerk/RFO and Members of the mandatory requirement to review, and formally Adopt the Council's Business and Health & Safety Risk Registers at least once, annually, said Adoption being recorded in the Minutes of the corresponding meeting of the Full Town Council.***

## **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 2021-22 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 November 2020 meeting of the Full Council in the amount of £72,600; and,
- Finally, in this area, we note that although the Council has established a number of Earmarked Reserves, as at the 30<sup>th</sup> September 2020, Earmarked items of £53,352 reside in a single Earmarked Reserve. An in-year transfer of £2,096.34 was made to the Community Infrastructure Levy Earmarked reserve bringing the total fund holding retained in the Council's Earmarked reserves to £55,448.34 as at the 31<sup>st</sup> March 2021 with seven of the established Earmarked reserves still having a zero balance.

Finally, in this area of our review, we have noted that the Council's total managed funds as at the 31<sup>st</sup> March 2021 stood at £118,529 (£139,286 prior year), with funds totalling £55,449 (£53,352 prior year) held in Earmarked reserves designated for specific purposes as described above.

The residual General Reserve balance of approximately £63,080 (£85,934 prior year) equating to approximately five-and-a-half months' revenue spending at prior year levels. This level of retained General Reserve sits towards 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 and is appropriate for the Council's budgeted spending requirements.

### ***Conclusions***

***Due to uncertainty concerning the ongoing Covid-19 situation the current advice given by the Chartered Institute of Public Finance and Accountancy (CIPFA) has been amended to retain within six and twelve months' general reserve based on prior year spending.***

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.*

## **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 for April and June 2020, and March 2021 to current account bank statements and other supporting documentation as noted earlier in this report;
- Reviewed the Cemetery Interments for the financial year from the 1<sup>st</sup> April to the 30<sup>th</sup> September 2020, noting that six interments occurred within this period. We have checked and verified the original documentation supporting each interment, supplied electronically for the purposes of this review and subsequently permanently deleted in compliance with the General Data Protection Legislation.
- Noted that the Council applied for and received a £10,000 Small Business Covid-19 support grant.

### ***Conclusions and recommendation***

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

### ***INTERIM REVIEW***

***The awarding of Small Business grants to Town and Parish Councils is currently under review by Central Government due to the consideration that Council's should not have been eligible to receive these. Until a ruling has been made in this matter we recommend that Councils transfer the grant into an Earmarked Reserve in case the grant is recalled.***

***Due to the remote nature of the Interim Audit we have not been able to review the Council's Burial Registers and associated documentation. It is our intention to extend this area of our review during the Year End audit, which we trust will be in person, to conduct a physical examination of this income stream and the Registers.***



R4. *The Small Business support grant, in the amount of £10,000 should be placed in an Earmarked Reserve until a ruling on council's eligibility to receive such grants has been made by Central Government.*

## **Review of Petty Cash Account**

Fernhurst Parish Council does not operate a petty cash account; any “out-of-pocket” expenses incurred being made via a formal expense claim and submitted to the same scrutiny and authorisation process as all other supplier payments.

*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 June 2020 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.;
- 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 2020 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 £190,094 (£186,942 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 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.

The Council holds no long-term investments, surplus funds for the Council being held in the NatWest and National Saving & Investments interest-bearing accounts. Similarly, we note that no loans are in place either repayable to or by the Council.

Finally, in this area of our review, we note that the Council continues to maintain and formally readopted its Investment Policy during the financial year to the 30<sup>th</sup> September 2020.

### *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, noting that the Council's Accounting Statements are produced automatically by its Rialtas Accounting Software. We have agreed detail therein to Section 2 of the 2020-21 financial year Annual Governance and Accountability Return.

### *Conclusion*

*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 Certificate in the Annual Governance and Accountability Return assigning positive assurances in all areas except Box 'C' as there is no clear evidence recorded in the Council's Minutes of Members having reviewed and formally readopted the Council's Risk Registers.*

*We confirm that all sensitive and confidential information, including Bank Statements and Payroll information supplied electronically for the purposes of this Internal Audit has been permanently deleted from our records in compliance with the General Data Protection Regulation and Auditing Solutions Ltd., Document Retention Policy.*

*Finally, we take this opportunity to remind the Clerk/RFO of the requirements in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.*

Rec. No.	Recommendations	Response
<b>Review of Expenditure</b>		
R1	Cheque Number 844 should be cancelled and reissued or paid by BACS if required.	<i>Response: Implemented.</i>
<b>Review of Corporate Governance</b>		
R2	The Clerk is required to record the statutory Power under which all Grants are made alongside the grant 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>Response: Implemented</i>
R5	The Clerk is reminded that it is a requirement to formally record in the Full Council's minutes, in separate line items, the Members Resolution to a) Approve and Adopt the budget for the forthcoming financial year, stating the amount of the budget, and, b) Approve and Establish the Precept for the forthcoming financial year, stating the full amount of the Precept.	
<b>Review of Assessment &amp; Management of Risk</b>		
R6	As advised during our Interim review of the year, it is a mandatory requirement to review, and formally Adopt the Council's Business and Health & Safety Risk Registers at least once, annually, said Adoption being recorded in the Minutes of the corresponding meeting of the Full Town Council.	
<b>Review of Budgetary Control &amp; Precept Determination</b>		
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>Response: Noted.</i>
<b>Review of Income</b>		
R2	The Small Business support grant, in the amount of £10,000 should be placed in an Earmarked Reserve until a ruling on council's eligibility to receive such grants has been made by Central Government.	<i>Response: Noted.</i>