

Fernhurst Parish Council

Internal Audit Report 2022-23 (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 2022-23 financial year; the Interim review of which took place remotely on the 28th November 2022 and supplemented by the Final-update review of the year which took place remotely on the 9th May 2023.

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, that although the Council continues to operate generally adequate internal controls in all areas examined, there has been a significant interruption to the high standard of the administration function during the 2022-23 financial year. Resultantly, we have recorded five negative assertions against Internal control objectives C, H, L, M and N with seven corresponding recommendations for improvement that are recorded in the main body of the report and the appended Action Plan.

We thank the Clerk/RFO for the manner in which the requested electronic documents and backup files have been presented, making both the interim 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 2022-23 with that in the closing 2021-22 Statement of Accounts;
- Ensured that the ledger remains in balance as at the 31st March 2023;
- 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 for the months of April and September 2022 and March 2023,
- Checked detail on the bank reconciliations of the 30th April and the 30th September 2022;
- Checked and verified that closing balance as at the 31st March 2023 against the year-end trial balance, agreeing the disclosed value to the year-end statements. NB: we had not been provided with year-end reconciliation statements;
- Noted that there were no out-of-date cheques recorded on the cashbook; and,
- Finally, in this area of review we note that once again, there is a prepayment value in the amount of £1,292.17 recorded under account code 110. The Clerk/RFO has advised us previously that this amount is in relation to a debt owed to the Council by the Village Hall Trust, to which the Council makes an annual award of Grant Aid, and which the Council has been unwilling to either write-off or recover.

Conclusions & Recommendation

We have checked and verified bank reconciliation statements for the financial year and agreed the year-end balances. We remind the Clerk/RFO of the necessity not only to produce the bank account reconciliation statements, but also to record their scrutiny and approval, by Members, in the Minutes of each corresponding meeting.

R1 The Clerk/RFO must ensure that, where bank reconciliation statements have been produced and submitted to Members for their Scrutiny and Approval at Meetings of the Full Parish Council or its Committees, that said Scrutiny and Approval is recorded in the corresponding Minutes of that meeting.

R2 The amount of £1,292.17 owed to the Council by the Village Hall Trust must be recovered or written-of forthwith. It is not permissible to permit such a debt to remain unresolved over several successive years, as we have previously advised.

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 2021-22, due to the failure of the Council to correctly announce and advertise the Notice for the Exercise of Public Rights (40 days not the 30 days required by statute);
- Noted that the Council has published the Notice of the Exercise of Public Rights for the FY2021-22 Annual Governance & Accountability Return for only 26 days and not the 30 days required by statute. This will result in a qualified Internal and External Audit report for the 2022-23 financial year;
- 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 2023 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, noting that, once again:
 - No statutory power is recorded against award of Grant Aid to applicants.
 - There is no record of the Council having formally reviewed and readopted its Risk Registers.
 - There is no monthly record of the approval of Payments made by the Council, review of bank balances or approval of bank reconciliation statements recorded in the monthly minutes of the Full Parish Council recorded after November 2022.
- 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;
- Noted that the Council's Standing Orders were revised and readopted at the 12th October 2022 meeting of the Full Parish Council under Minute Reference 136/22;
- Noted that the Council's Financial Regulations were revised and readopted at the 9th November 2022 meeting of the Full Parish Council under Minute Reference 156/22;
- Noted that the Council does not have an official website which is active at this time. The Council holds two domains: <https://www.fernhurst-pc.gov.uk> and <http://fernhurst-wsx-pc.gov.uk> which is pointed to the primary account; and,
- The Council has not complied with the requirement to publish required information on its website up to date at the time of the Internal Audit, nor has it complied with the publication requirements for the 2021-22 AGAR.

Conclusion and Recommendations

We have noted the External Auditor's comments in their report concerning the FY2021-22 accounts concerning the period of the Notice of the Exercise of Public Rights being incorrectly advertised for 40 days and not the 30 days statutorily required.

- R3. *The Clerk must ensure that the advertised period for the Notice of the Exercise of Public Rights must be made for the exact statutory requirement: 30 working days, to include the first ten working days in July. The announcement may only be made after the Council has Resolved to Approve its Annual Governance and Accounting Statements in the Annual Governance and Accountability, and must take place at least one whole*

working day prior to the first day of the Notice of Exercise of Public Rights being published.

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).

R4. *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.*

We have noted, as at the date of the final-update year-end internal audit, that the continuous issues with the failure to develop the Council's website had led to the Council being locked out of the .gov.uk domain. We have discussed this matter with the Clerk/RFO in detail. We are informed that it has been extremely difficult to find a reliable host at an affordable cost; the Members having taken a cautious approach due to past issues with website development.

The Clerk/RFO advises us that the quotation process has not only been time consuming but has also included several 'false-starts' where potential supplier claims were found to have been inaccurately stated resulting in the quotations process being restarted.

The supplier appointed by the Council advised that a: 'fully functioning website would take 4-6 weeks' to produce. Unfortunately, this claim has not been delivered upon. As at the date of the Year-end internal audit, only a holding page was displayed, and the Council was unable, we are advised by the Clerk/RFO to upload any information thereon.

We accept that the current situation is, for the most part, out of the control of the Clerk/RFO and Members, but advise that this situation must be resolved expeditiously with the Council regaining full control of its official website. The Council's failure to properly maintain this resource, during the 2022-23 financial year, has resulted in the failure to achieve positive assertions in Internal Control Objectives: 'L', 'M' and 'N'.

R5. *The Clerk/RFO and Members must take all reasonable and appropriate measures to resolve the unsatisfactory and ongoing situation with the Council's official website.*

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 and year-end audits, we have examined all transactions recorded in the Council's Rialtas Cashbooks for the months of April and September 2022 and March 2023 with no issues arising.

Additionally, we have checked and verified 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 32 payments were examined totalling £34,199.04 and representing approximately 58% of all non-pay related payments, 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 claim in respect of the 2022-23 financial year was submitted in the amount of £4,906.11 in April 2023.

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 reminder that the Council should do so, given in our interim report of the year, that there is no record in the Council's Approved and Published Minutes that the Council undertook the mandatory in-year review of its Health & Safety and Business Risk registers which were last formally readopted at the 26th April 2021 meeting of the Full Parish Council under Minute Reference 54/21 of that date. This has led to a failure to achieve the required standard of Internal Control objective 'C' in the Annual Internal Audit Report FY2022-23.

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 and recommendation.

The Council has failed to formally review and readopt its general Business and Health & Safety Risk Registers during the 2022-23 financial year.

R6 *We remind the Clerk/RFO and Members of the absolute requirement for the Council to review and readopt its Risk Registers at least once annually, with the Resolution recorded in the minutes of that meeting.*

Review of Budgetary Control & Precept Determination

We note that members continue to receive periodic finance reports including bank reconciliations and budgetary analysis.

We further note that the Budget setting and Precept determination process for the 2023-24 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 14th December 2022 meeting. The draft budget was Approved and the Precept Adopted under Minute reference 175/22 in the amount of £76,250; and,

Finally, in this area, we note that the Council has two formally established earmarked reserves EMR 322 - Asset Replacement Reserve and EMR 323 - Community Infrastructure Levy. The Opening Balance for these EMRs as at the 1st April 2022 was £57,484.93 with zero in-year Net Transfers 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 £130,556 (*£117,608 prior year*), with funds totalling £57,485 (*£57,485 prior year*) held in Earmarked reserves designated for specific purposes as described above and £8,301 in Accruals and Creditors.

The residual General Reserve balance of approximately £64,770 (*£60,123 prior year*) equates to approximately nine months' revenue spending at average 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 both our FY2020-21 and FY2021-22 prior year reports, that 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, the Council's playground and the delayed website development project which would bring the Council's General Reserve position into good order.

R7. *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 the months of April and September 2022 to the current account bank statements and other supporting documentation as noted earlier in this report; and,
- Reviewed the records of interments and related income for the financial year to the 30th September 2022 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 2022 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 Sippdeal 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 2022 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 were not provided with a current copy of the Council's Fixed Asset Register for this year-end audit, therefore it has not been possible to check and verify that the register has been updated to reflect the cost of in-year acquisitions and disposals. We have reviewed the cash register and estimate that the revised value of the Fixed Asset Register (without any in-year disposals having been applied) will be approximately £189,404 (£188,823 prior year). Currently we can make no assertion that the Fixed Asset Register value has been correctly reflected in the value reported in the year's Annual Return at Box 9 of Section 2.

Conclusions

We would be grateful if the Clerk/RFO could furnish us with a certified copy of the Council's Fixed Asset Register forthwith, to enable us to complete this area of review. Currently, we have recorded a failure to meet the required standard of Internal Control Objective 'H'.

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.

As at the 31st March 2023, the Town Council held the public funds under its management as follows:

| Account | Cashbook Number | Reconciled Value as at 31.12.23 |
|---|------------------------|--|
| NatWest Current Account | CB2 | £20,461.68 |
| NatWest Deposit Account | CB3 | £30,117.98 |
| Subtotal | | £50,579.66 |
| Financial Services Compensation Scheme | | -£85,000.00 |
| NatWest funds at risk | | zero |

| | | |
|------------------------------|-----|--------------------------|
| National Saving & Investment | CB1 | £73,777.89 |
| | | Total £124,357.55 |

The Council holds its funds in a National Westminster Bank Current and Reserve Account and a National Savings & Investments Account, on which monthly interest is received: as indicated earlier in this report, we have checked and verified the closing balances, as at the 31st March 2023, against the prime documentation, i.e. bank statements, cashbook entries and year-end Trial Balance report.

We note that as at the 31st March 2023, all of the public funds under the Council's management were protected by the Government's Financial Services Compensation Scheme (FSCS) which, for organisations with a turnover less than €500,000 protects investments in each institution to a maximum of £85,000.

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.

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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 Accounting Arrangements & Bank Reconciliations | | |
| R1 | The Clerk/RFO must ensure that, where bank reconciliation statements have been produced and submitted to Members for their Scrutiny and Approval at Meetings of the Full Parish Council or its Committees, that said Scrutiny and Approval is recorded in the corresponding Minutes of that meeting. | |
| R2 | The amount of £1,292.17 owed to the Council by the Village Hall Trust must be recovered or written-off forthwith. It is not permissible to permit such a debt to remain unresolved over several successive years, as we have previously advised. | |
| Review of Corporate Governance | | |
| R3 | The Clerk must ensure that the advertised period for the Notice of the Exercise of Public Rights must be made for the exact statutory requirement: 30 working days, to include the first ten working days in July. The announcement may only be made after the Council has Resolved to Approve its Annual Governance and Accounting Statements in the Annual Governance and Accountability, and must take place at least one whole working day prior to the first day of the Notice of Exercise of Public Rights being made. | |
| R4 | 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. | |
| R5 | The Clerk/RFO and Members must take all reasonable and appropriate measures to resolve the unsatisfactory and ongoing situation with the Council's official website. | |
| Review of Assessment and Management of Risk | | |
| R6 | We remind the Clerk/RFO and Members of the absolute requirement for the Council to review and readopt its Risk Registers at least once annually, with the Resolution recorded in the minutes of that meeting. | |
| Review of Budgetary Control & Precept Determination | | |
| R7 | <i>We remind the Clerk/RFO and Members of the absolute requirement for the Council to review and readopt its Risk Registers at least once annually, with the Resolution recorded in the minutes of that meeting.</i> | |