

Fernhurst Parish Council

Internal Audit Report 2024-25 (Interim)

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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 2024-25 financial year; the Interim Review which took place remotely on the 4th of November 2024.

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 controls 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 fifteen internal control objectives.

We have followed up the recommendations made in our 2023-24 reports noting that the Clerk & RFO and Members have noted these in their deliberations. We report that, on the basis of the work undertaken to date, the Council continues to operate adequate and effective internal controls in all areas examined. Resultantly, we have made six recommendations for improvement which is detailed in the main body of the report and the appended Action Plan.

We note that the previous Clerk & RFO, Kevin Jones has now retired, and Elizabeth Ford has been appointed to this role effective the 1st of October 2024. We would like to thank Mr Jones for his strenuous efforts for and on behalf of the Council and his assistance in undertaking the bi-annual audits in the past, and to thank Mrs Ford for her assistance in undertaking this interim audit.

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 three accounts with the National Westminster Bank: a current, reserve and second reserve (with notice) account. The Council's account at National Savings & Investments was closed during the 2023-24 financial year with the residual funds being transferred to the Council's second reserve National Westminster bank account. To meet this objective, we have: -

- Agreed the opening trial balance detail in the Alpha software for 2024-25 with that in the closing 2023-24 Statement of Accounts;
- Ensured that the ledger remains in balance at the 30th of September 2024;
- 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, May, June, July, August and September 2024;
- Checked detail on the bank reconciliations of the 30th of April and 30th of September 2024; and,
- Noted that there were no out-of-date cheques recorded on the cashbook.

Conclusions

There are no matters arising in this area of 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 the 2023-24 financial year. The Council received a Qualified External Auditor's report due to the fact that the Council confirmed that they did not review certain governance documents including its own internal controls. The External Auditor stated that: "The Council is required to review the effectiveness of its internal controls on an annual basis as per the Accounts and Audit Regulations 2015 section 6 paragraph and the Practitioners Guide at paragraph 1.2. Therefore, the Council should have provided a 'No' response at Assertion 2."

It should be noted that the Council did indeed review its Internal Controls documentation during the 2024-25 financial year, and it does appear that a confusion arose due to the language being used by the new External Auditors. This matter has been discussed at length with the new Clerk & RFO and is commented on below;

- Noted that the Council correctly published the Notice of the Exercise of Public Rights for the 2023-24 financial year. The announcement was made on the 24th of June 2024, the period for the Exercise of Public Rights being from Monday 1st of July 2024 to Friday the 9th of August 2024 inclusive. A period of exactly 30 days including the first 10 working days in July;
- Commenced the Review of Minutes for the Council and its Committees, excluding Planning, for the 2024-25 financial year noting that the Minutes are of a generally high quality, and are published, along with the corresponding Agenda on the council's official website;
- Noted that the Council's Standing Orders were last revised and readopted, unamended, at the 20th of March 2024 meeting of the Full Parish Council under Minute Reference 43/24;
- Noted that the Council's Financial Regulations were last confirmed to have been revised and readopted at the 13th of September 2023 meeting of the Full Parish Council under Minute Reference 147/23. We note from our review of Minutes that the new Clerk & RFO has been tasked with reviewing both the Council's statutory documents and its policies; and,
- Noted that the Council has published an official website at <https://fernhurst-pc.org> on a secure server. This website is fully functional, easy to use and complies, as far as can be ascertained with current Accessibility Legislation. The Council has published all the information that it is required to, along with additional information relating to local resources. The holds a second domain: <https://www.fernhurst-pc.gov.uk> where the Council's official email addresses hosted, however the website was not populated due to a dispute with the contractor.

Conclusion & recommendations

We have noted the comments made in the External Auditor, Moore's External Audit report for the 2023-24 financial year in relation to the failure to review its own internal controls documentation. As we have noted above, the Council did review its internal controls documentation, as confirmed in its Approved and Published Minutes. What appears to have occurred is a failure of communication between the new External Auditors and the outgoing Clerk & RFO due to the shift in language that was used.

We have discussed this matter with the new Clerk & RFO, at length, and have provided additional documentation as appendices to this report.

R1 The Clerk & RFO and Members must ensure that proper attention is afforded to the Council's Statutory Documents: Standing Orders and Financial Regulations, and its portfolio of policies. As previously advised, these should be reviewed at least once annually and readopted by Council Members subsequent to their scrutiny and approval. we have provided the Joint Panel on Accountability and Governance (JPAG) Practitioners Guide 2024 and a template Statement of Internal Controls for the Clerk & RFO's information and ongoing use.

R2 We have noted that during the October 2024 meeting of the Full Council, the Clerk & RFO was instructed to review the Council's Statutory and Policy Documents. We advise the Clerk & RFO and Members that the Council should also review which additional policy documents it requires and should ensure that in addition to reviewing and readopting its current Code of Conduct, Investment Strategy and Privacy Policy, it

should consider adopting a formal Grants Policy, GDPR / Data Protection Policy, Document retention Policy, Complaints Policy, Vexations Policy, Social Media Policy, Freedom of Information Request Policy.

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, and appointment of the new Clerk & RFO, we have examined all transactions recorded in the Council's Rialtas Cashbooks for the months of April, May, June, July, August and September 2024 with only one matter arising.

Additionally, we have checked and verified a sample of payments for the financial year to the 30th of September 2024, 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 of £750.00 and every 20th payment irrespective of value. A total of 15 payments were examined totalling £44,528.09 and representing approximately 62% of all non-pay related payments. Two payment documents could not be provided to support the payments made, both were regular payments made by direct debit.

23/08/2024	Wetton Cleaning Services Ltd	£916.01
20/09/2024	Chichester District Council	£42.20

Finally, in this area of our review we have noted that manual VAT recovery claims continue to be submitted annually. The VAT reclaim for the 2023-24 financial year, in the amount of £5,786,36, was received to bank on the 07th May 2024.

Conclusions and recommendation

The internal controls pertaining to the management of payments and payment authorisations is generally sound. However, it is imperative that solid controls of the documentary evidence supporting payments made is properly maintained, i.e. invoices and receipts, at all times. As stated above, the new Clerk & RFO was unable to provide two payment documents within our sample of payments.

R3 The Clerk & RFO must ensure that all payment documents: invoices & receipts are properly retained on file to provide clear evidence of the legitimacy of any payment transaction made by the Council.

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 undertook a detailed overhaul of its Risk Assessments during the 2023-24 financial year: During the 12th of July 2023 meeting of the Parish Council the Risk Assessments were formally reviewed, under Minute Reference FC/130/23. Subsequently, during the 13th of September 2023 meeting of the Parish Council the Risk Assessments were Approved and Adopted, under Minute Reference FC/148/23.

We note that during the 2024-25 financial year to the 30th of September 2024 the Council's Risk Assessments had not yet been reviewed.

The Council's insurance schedule for the 2024-25 financial year, Policy Number LCO01394 has been examined, with cover provided by the Clear Councils Scheme, underwritten by Aviva Insurance Ltd. The policy runs from the 10th of June 2024 to the 9th of June 2025. 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, and 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 Parish Ranger, 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 Parish Ranger 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 & recommendation

There are no matters arising in this area of review warranting formal comment or recommendation. We take this opportunity to remind the Clerk & RFO and Members of the necessity to continuously review its Risk Register (portfolio of Risk Assessments). It is considered Best Practice to formally review the Risk Register, at least once annually, and to formally Adopt the Approved Risk Register, with said Adoption recorded in the published Minutes of that meeting.

R4 The Clerk & RFO and Members should ensure Best Practice standards are maintained by formally reviewing the Risk Register, at least once annually, with the subsequent Approval and Adoption being recorded in the published Minutes of the corresponding 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 2025-26 financial year was again undertaken at the Finance Committee. The new Clerk & RFO has advised that the Budget setting and Precept determination process was undertaken after a detailed review of the first six months accounts for the 2024-25 financial year. The Draft Budget was reviewed at the Full Council meeting in October, with the amended draft to be presented to Full Council again in November 2024.

We note that the Council continues to maintain one earmarked reserve EMR 322 - Asset Replacement Reserve. EMR 322 opening balance as at the 1st of April 2024 was £53,352.00 with no in-year transfers to the 30th of September 2024.

As we have commented on in previous reports, all earmarked reserves are required to be formally established for specific projects and expenditure, however, EMR 322 is being used more as a budgetary reserve and is being managed via a spreadsheet. We take this opportunity to advise the Clerk & RFO, and Members, that all earmarked reserves should be formally established, set up in the Rialtas Accounting software and all transactions pertaining to the earmarked reserves properly and fully recorded in the accounting record.

Conclusions and recommendation

For some time, the Council has operated a 'catch all' earmarked reserve: EMR 322 – Asset Replacement Reserve. This earmarked reserve is managed as a catch all budget, externally from the Council's accounting package Rialtas Alpha, via a spreadsheet which is not an appropriate practice. We have in previous years made recommendations that the Council should formally constitute proper earmarked reserves to accrue for future projects and expenditure, for example for the replacement of playground equipment, the Cemetery Memorial restoration project, etc., but this has not been implemented as there seems to be some confusion as to the purpose and use of earmarked reserves.

Earmarked reserves are required to be formally constituted and established for specific projects or expenditure and are not intended for general use or discretionary spending. Using EMR 322 as a general projects budget is not appropriate and we take this opportunity to recommend that the Council now properly and formally constitute appropriate earmarked reserves and manages and reports on those earmarked reserves via its accounting software.

R5 The Clerk & RFO and Members should work to define the earmarked reserves required by the Council during its current Budget setting and Precept determination process. These earmarked reserves should be formally constituted, recorded in the Council's Minutes, and established in Rialtas Alpha. Thereafter, these should be properly managed and reported on using the accounting software, providing proper reporting in the Council's Income & Expenditure accounts.

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, May, June, July, August and September 2024 to the current account bank statements and other supporting documentation as noted earlier in this report; and,
- Reviewed the income records relating to interments and memorials for the financial year to the 30th of September 2024, referring to the current schedule of fees and charges, Nominal Ledger report and the Council's NatWest current account statement, 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 August 2024 detail, we have:

- Noted that the outgoing Clerk & RFO, retired as at the 30th of September 2024. The Clerk was employed at NJC SCP 37 for a 23 hour week, plus variable pay in relation to overtime approved by the Council.
- Noted that the new Clerk & RFO, commenced employment on the 30th of September, at NJC SCP 34 during the probationary period of employment, rising one scale point to NJC SCP 35 upon successful completion of the same. During September the new Clerk & RFO was employed on a 13 hour week, increasing to a 23 hour week from the 1st of October.
- 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 was making payments into the outgoing Clerk & RFO's defined contribution pension scheme which is managed by Sippdeal Trustees;

- Noted that upon completion of the probationary period, the new Clerk & RFO is to be enrolled in the LGPS with West Sussex Pension Fund with staging date from first date of full time employment (the 1st of October 2024);
- 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 produced from HMRC PAYE Tools; and,
- Noted that the new Clerk'/RFO's remuneration will increase in line with the backdated pay award to commencement of her employment.

Conclusions

There are no matters arising in this area of review that warrant 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 of 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, most recently in September 2023.

As at the 30th of September 2024, the Town Council held the public funds under its management as follows:

Account	Cashbook Number	Reconciled Value as at 30.09.24
NatWest Current Account	CB2	£33,145.09
NatWest Deposit Account	CB3	£10,621.46
NatWest Notice Deposit Account	CB4	£95,355.73
Subtotal		£140,122.28
Financial Services Compensation Scheme		-£85,000.00
NatWest funds at risk		£55,122.38
Total funds invested as at 30.09.24		£140,122.28

The Council now holds its funds in a three National Westminster Bank accounts: a Current, Reserve, and Reserve with Notice Account having closed its National Savings & Investments Account during the 2023-24 financial year. We have checked and verified the closing balances against all these accounts as at the 30th of September 2024, against the prime documentation.

We note that as a result of closing the National Saving & Investment Account that at the 31st of March 2024, the public funds under the Council's management which were not protected by the Government's Financial Services Compensation Scheme (FSCS) have risen to £38,296.89 as at the 30th of September 2024 (£38,296.89 at 31st March 2024). The FSCS guarantee provides protection, 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 and recommendation

Now that the Council has consolidated all its banking with the National Westminster Bank, it has increased the risk of loss, of the public funds under its management, as described above. We strongly suggest that the new Clerk & RFO and Members review this situation, whilst reviewing the Council's own Investment Strategy remembering that the Clerk & RFO and members are required to ensure that all reasonable and proportionate steps are taken to protect the public funds under the Council's Management whilst achieving a reasonable rate of return of any investment.

R6. *The Clerk & RFO and Members should ensure that all reasonable and proportionate steps are taken to protect the public funds under the Council's management whilst achieving a reasonable rate of return on any investment.*

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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.

APPENDICES

- 1) Joint Panel on Accountability and Governance (JPAG) Practitioners Guide 2024***
- 2) Template Statement of Internal Controls for Town, Parish & Community Councils***

Rec. No.	Recommendations	Response
Review of Corporate Governance		
R1	The Clerk & RFO and Members must ensure that proper attention is afforded to the Council's Statutory Documents: Standing Orders and Financial Regulations, and its portfolio of policies. As previously advised, these should be reviewed at least once annually and readopted by Council Members subsequent to their scrutiny and approval. we have provided the Joint Panel on Accountability and Governance (JPAG) Practitioners Guide 2024 and a template Statement of Internal Controls for the Clerk & RFO's information and ongoing use.	
R2	We have noted that during the October 2024 meeting of the Full Council, the Clerk & RFO was instructed to review the Council's Statutory and Policy Documents. We advise the Clerk & RFO and Members that the Council should also review which additional policy documents it requires and should ensure that in addition to reviewing and readopting its current Code of Conduct, Investment Strategy and Privacy Policy, it should consider adopting a formal Grants Policy, GDPR / Data Protection Policy, Document retention Policy, Complaints Policy, Vexations Policy, Social Media Policy, Freedom of Information Request Policy.	
Review of Expenditure		
R3	The Clerk & RFO must ensure that all payment documents: invoices & receipts are properly retained on file to provide clear evidence of the legitimacy of any payment transaction made by the Council.	
Review of Assessment & Management of Risk		
R4	The Clerk & RFO and Members should ensure Best Practice standards are maintained by formally reviewing the Risk Register, at least once annually, with the subsequent Approval and Adoption being recorded in the published Minutes of the corresponding meeting.	
Review of Budgetary Control and Precept Determination		
R5	The Clerk & RFO and Members should work to define the earmarked reserves required by the Council during its current Budget setting and Precept determination process. These earmarked reserves should be formally constituted, recorded in the Council's Minutes, and established in Rialtas Alpha. Thereafter, these should be properly managed and reported on using the accounting software, providing proper reporting in the Council's Income & Expenditure accounts.	
Review of Investments and loans		
R6	The Clerk & RFO and Members should ensure that all reasonable and proportionate steps are taken to protect the public funds under the Council's management whilst achieving a reasonable rate of return on any investment.	