

Fernhurst Parish Council

Internal Audit Report 2018-19

Claire Lingard
Consultant Auditor

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 2018-19 financial year, which took place on the 15th May 2019.

Internal Audit Approach

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

Overall Conclusion

We have concluded that, based on the satisfactory completion of our programme of work for the year, the Council has again maintained adequate and effective internal control arrangements. We have made only two recommendations for improvement which are detailed in the main body of this report and in the appended Action Plan.

We have completed and signed the 'Internal Audit Report', having concluded that the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council.

We would like to take this opportunity to thank the Clerk for his assistance during this year's audit review process.

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 2018-19 with that in the closing 2017-18 Statement of Accounts;
- Ensured that the ledger remains in balance at the date of our final visit;
- Ensured that an appropriate cost centre and accounting structure remains in place;
- Checked and agreed transactions (both receipts and payments) in the Council's combined bank account cashbooks to the relevant bank statements in full (due to the low volumes of transactions) for the year to 31st March 2019;
- Similarly, checked and agreed the one interest receipt on the NS&I savings account for the year; and,
- Checked detail on the bank reconciliations for FY 2018-19 to ensure that no long-standing uncleared cheques or anomalous entries exist and agreed the closing bank reconciliation for the Council as a whole to all three separate bank account statements with no issues arising. We note that the Chair continues to "sign off" the monthly reconciliations which are routinely provided to members at each Full Council meeting.

Conclusions

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

Review of Corporate Governance

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

- Noted that the Council had received an unqualified External Audit report for FY 2017-18;
- Reviewed minutes of the Full Council, the Finance & Policy Committee and the Property, Highways & Environment Committee meetings for the full year to the 31st March 2019 to identify whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability, also ensuring that the Council has neither considered nor is considering any actions that may result in ultra vires expenditure; and,
- Noted that the Council's Standing Orders were revised continually throughout 2018-19 and were finally adopted in the march 2019 meeting of the Full council and that the

Financial Regulations were revised and adopted in the September 2018 meeting of the Full Council. Both the Financial Regulations and the Standing Orders are now based on NALC model documents.

Conclusion

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

Review of Expenditure

Our aim here is to ensure that: -

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

We have selected a sample of payments for examination to ensure compliance with the above criteria including all those individually in excess of £750 together with a more random sample of every 20th cashbook transaction, irrespective of value, to 31st March 2019. Our test sample comprised 20 payments in all, totalling £39,376 and representing 52% of all non-pay related payments processed in the year.

We noted that manual VAT recovery claims continue to be submitted annually. The VAT claim for FY 2018-19 in the amount of £8,613.60 having been duly completed and submitted on the 16th April 2019 which has been settled in full. We have verified the Alpha detailed prepared for this claim to the year-end debtor disclosed in the Statement of Accounts.

Finally, in this area, we have updated our year-on-year analytical review of expenditure incurred across the range of Council activities with no significant variances requiring further enquiry or explanation by officers.

Conclusions

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

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.

It is noted that the Council's Risk Registers and its Risk Policy document were reviewed by the Finance Committee in September 2018 with a recommendation for adoption made to the Full Council. Members subsequently adopted the revised Risk Registers and Risk policy document at the September Meeting of the Full Council. The Clerk/RFO and members are reminded that all the Council's Risk registers must be reviewed and readopted by the Full Council in each Financial Year, and that the adoption must be formally minuted, as required by the Governance and Accountability Manual.

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

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

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

Conclusions

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

Precept Determination and Budgetary Control

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 the Precept request made for the 2019-20 financial year was the result of a robust Budget setting and Precept determination process which culminated with the Precept being adopted at the December 2018 meeting of the Full Council in the amount of £72,600 with the budgeted deficit of £24,275 being funded from the Council's Reserves, under Minute Reference 160/18.
- We further note that members continue to receive regular finance reports including bank reconciliations and budgetary analysis; and,

- Finally, in this area, we note that Total Reserves as at 31st March 2019 stood at £139,166 (£146,641 in the prior year), comprising specific Earmarked items of £53,352 (unchanged) and the residual General Reserve of £85,814 (£93,289 in the prior year), the latter representing almost 11 months' revenue expenditure at FY 2018-19 levels, which is considerably higher than the current CiPFA guidance in this area, which recommends the retention of between three and six months general reserves based on prior year spending.

Conclusions

We have noted the current higher than recommended level of General Reserve, however, we have also taken into account the Member's actions in the Council's Budget Setting process for the 2019-20 financial year, which resulted in the adoption a Precept which will produce a Budget deficit of £24,275, to be funded from the Council's reserves. This action will adjust the General Reserve balance accordingly. Consequently, there are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Income

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

- Checked and agreed all transactions from cashbook receipts for the full year to the 31st March 2019 to current account bank statements and other supporting documentation as noted earlier in this report;
- Reviewed the Burials and memorials fees during FY 2018-19 noting that although the pertinent documentation had been maintained, that the Burial Register itself had not been updated since the 25th April 2016;
- Similarly, checked and agreed all interest receipts arising on the reserve and NS&I from cashbooks to bank statements for the year; and,
- Noted that revisions to the Council's scales of fees and charges for cemetery activities were reviewed in FY 2018-19.

Finally, in this area of our review we have updated our year-on-year analytical review of expenditure incurred across the range of Council activities with no significant variances requiring further enquiry or explanation by officers.

Conclusions

It is a legal requirement that the Council, acting as a Burial Authority, ensures that Burial Register be properly and accurately maintained at all times. We note that all the relevant paperwork pertaining to the interments was in order, however, we impress upon the Clerk and Members the importance of maintaining the Register.

R1. The Clerk must, as soon as it is practicably possible, update the Council's Burial Register to comply with governing legislation.

Petty Cash Account

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

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 December 2018 detail, we have:

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

Conclusions

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

Asset Register

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

The current Clerk has continued to maintain a detailed inventory of the Council’s assets and equipment, detail of each asset being recorded and subject to annual update to reflect any new acquisitions and disposals (of which there were none in 2017-18) and we have verified the total disclosed at Box 9, Section 2 of the Annual Return in the amount of £186,867.

Conclusions

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

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.

Conclusions and recommendation

The Council has no specific investments, surplus funds continuing to be held in a National Savings deposit account cashbook: detail of the balances held therein have been checked and agreed as part of the this final audit work for 2018-19 as noted earlier in this report. Similarly, the Council has no loans either repayable by it or to it.

We take this opportunity to remind members of the new statutory Guidance on Local Government Investments from the 1st April 2019-20 mandates that all parish councils to develop an investment strategy, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year.

R2. *The Clerk must develop an Investment Strategy for the Members’ consideration, revision and ultimately, their adoption.*

Statement of Accounts and Annual Governance and Accountability Return

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

As part of our review process, we have examined the Council’s procedures in relation to the identification of detail for inclusion in Section 2 of the Return, which is generated automatically by the Rialtas accounting software and we have agreed detail therein to Section 2 of the 2018-19 Annual Governance and Accountability Return. The Rialtas data is used by the Clerk & RFO and DCK Accounting Services to provide a detailed set of accounting statements for the Council, however, these had not been produced at the time of our Internal Audit Review for FY 2018-19.

Conclusions

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

Rec. No.	Recommendations	Response
Review of Income		
R1	The Clerk must, as soon as it is practicably possible, update the Council's Burial Register to comply with governing legislation.	
Review of Investments and Loans		
R2	The Clerk must develop an Investment Strategy for the Members' consideration, revision and ultimately, their adoption.	