

Parish Council Accounts Financial Year Ending 31 March 2019

Internal Audit Report for the Annual Return

Scope of Audit

The Council is required to undertake an internal audit to evaluate the effectiveness of its risk management, control and governance processes¹.

I confirm that I am independent of financial decision making, financial management, financial control and financial procedures of Fownhope Parish Council.

I have conducted an internal audit with the objective of reporting on the Council's performance against its financial control and risk management systems and to provide recommendations for improvements where appropriate.

In order to achieve the objectives of the audit, I have examined documents with a view to report on the areas of the internal control objectives identified in the Annual Governance and Accountability Return document 2018/19.

Documents

I have examined the following documents: -

- The computer Excel spreadsheet file FINAL FPC accounts for year ending 31.3.19.xlsx which includes sheets
 - Annual Return
 - Balance Sheet
 - Accounts
 - Cash Book recn
 - Payments
 - Receipts
 - Protected Funds
 - Fixed Assets Register - dated 31/3/18 in the sheet but it has been updated to remove laptop computers (as agreed at the 2 May 2018 Parish Council Meeting) and to add the Toddler Play Equipment and Basket Swing installed in September 2018 and the Coronation Pumphouse
- Bank statements for the Current Account and Business Reserve Account held at the NatWest Bank by Fownhope Parish Council
- Cheque books and paying-in books for the NatWest Bank Current Account
- Minutes of Parish Council meetings
- Finance Statements presented to each Parish Council meeting
- Finance Working Group (FWG) Meeting Notes (24 April, 24 July, 12 September, 12 November 2018 and 25 February 2019). Reports from the FWG meetings 24 July, 12 September and 25 February to the Parish Council meetings
- Invoices
- Remittance and payments advice notes and documents
- List of Purchase Orders for Work, Goods and Services for 2019
- IAG (Investment Advisory Group) Report (May 2018)
- Fownhope Parish Council Financial Regulations (adopted 6 December 2017 with amended clause 3.5 as approved at Parish Council meeting 5 September 2018)

¹ Regulation 5(1) of the Accounts and Audit Regulations 2015

- Fownhope Parish Council Financial Regulations Appendix 1.0 Investment Strategy (revised January 2018 and approved at Parish Council meeting 7 February 2018)
- Fownhope Parish Council Risk Management Policy adopted at the Parish Council Meeting 2 May 2018
- The Fownhope Parish Council Risk Assessment 2016-2017
- The Fownhope Parish Council Risk Register April 2018
- Documents confirming employers' liability insurance and public/products liability insurance
- The Annual Governance and Accountability Return document for the financial year ending 31 March 2018 and the External Auditor Report and Certificate

Review of Recommendations from 15 May 2018 Audit

1. The recommendation that the Risk Register is prepared in the format proposed in Appendix 1 of the Practitioners' Guide to Proper Practices, Governance and Accountability for Smaller Authorities in England has not been implemented.
A Risk Management Policy was adopted by the Council on 2 May 2018. The Risk Register has been updated following a meeting of the Finance Working Group in April 2018 and I found it to be to be suitable and comprehensive in the 5 December 2018 audit.
2. The recommendation that the Financial Regulations Section 11 Risk Management is updated has not been implemented. However, the Financial Regulations document has been updated by the addition of a new Section 3.5 (previous Section 3.5 becomes 3.6 and previous Section 3.6 becomes 3.7).
3. The Asset Register has been updated as recommended but the date at the top of the sheet in the Excel spreadsheet needs updating.
4. The recommendation that the Council prepare a document to record the nature of the investments managed by the Investment Advisory Group in accordance with Item H of the Internal Control Objectives has not been implemented.
5. The recommendation in 15 May 2018 Audit that the Council receive regular updates on progress against budget and cash book reconciliation is implemented in that financial statements are presented to each Council meeting.

Review of Recommendations from 5 December 2018 Audit

1. The recommendation that improvements are made to the method of documenting Work Orders or instructions to contractors for P3 and Lengthsman services has not been implemented in the way envisaged in the recommendations but a list of Purchase Orders for Work, Goods and Services has been in use since January 2019.
2. A Health and Safety Policy was adopted at the Parish Council meeting on 6 February 2019.
3. Findings – Item 4. Payment Schedules Included in Meeting Agendas are now signed by meeting Chair. The Financial Regulation 3.5 has been added and authority has been given to the RFO to settle regular invoices between meetings subject to a limit of £250.

Findings

	Internal Control Objectives	Evidence	Findings
A	Appropriate accounting records have been kept throughout the year	<ol style="list-style-type: none"> 1. The Excel spreadsheet 2. Fownhope Parish Council Financial Regulations 3. Minutes of Fownhope Parish Council meetings. 4. Finance Working Group meeting notes 5. Investment Advisory Group (IAG) report 	<ol style="list-style-type: none"> 1. The accuracy of the receipts and payments was checked with reference to bank statements, paying in slips, cheque stubs and invoices. I found no errors and conclude that the records are accurate. 2. Finance reports were presented to meetings of the Fownhope Parish Council throughout the year. I conclude that records have been kept up to date and reported throughout the year. 3. The notes from the Finance Working Group meetings show that appropriate action is being taken to ensure finance records are maintained and appropriate. 4. The IAG reports show that appropriate records and monitoring are maintained throughout the year. <p>I conclude that this Internal Control Objective has been achieved.</p>

	Internal Control Objectives	Evidence	Findings
B	Fownhope Parish Council complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	<ol style="list-style-type: none"> 1. The Excel spreadsheet 2. Fownhope Parish Council Financial Regulations 3. Minutes of Fownhope Parish Council meetings. 4. Finance Working Group meeting notes 5. Invoices 6. Cheque books 7. Bank statements 	<ol style="list-style-type: none"> 1. The Financial Regulations of the Fownhope Parish Council were implemented. However, I found two payments over £250 were made with approval by Council under Annual Subscriptions which is not covered by the Regulations. See Recommendation 3. 2. Payments were supported by invoices. Other payments, for expenses to members and volunteers, were supported by receipts or invoices. Invoices have been signed by a Council member. 3. Expenditure was approved at meetings of Fownhope Parish Council. The minute reference for approvals is recorded in the Payments sheet of the spreadsheet. Financial Regulation 3.5 has been added and authority has been given to the RFO to settle regular invoices between meetings subject to a limit of £250. 4. Cheque counterfoils have been initialled by cheque signatories (Regulation 5.4). 5. VAT has been separately accounted for in the Payments sheet of the spreadsheet. However, there has been only one VAT reclaim payment during the financial year <p>I conclude that this Internal Control Objective has been achieved but I have made recommendation No 3 for improvement.</p>

	Internal Control Objectives	Evidence	Findings
C	Fownhope Parish Council assessed the significant risks to achieving its objectives and reviewed the adequacy of the arrangements to manage these.	<ol style="list-style-type: none"> 1. The Fownhope Parish Council Risk Assessment 2016-2017 2. The Fownhope Parish Council Risk Register April 2018 3. The Fownhope Parish Council Risk Management Policy 4. Fownhope Parish Council Financial Regulations 5. Finance Working Group meeting notes 	<ol style="list-style-type: none"> 1. The Risk Register was reviewed at the 24 April and 24 July meetings of the Finance Working Group and it has been updated 2. A Risk Management Policy has been adopted. 3. Internal controls were reviewed at the Finance Working Group meeting 24 July 2018 but it was limited to checking sample invoices and cheque stubs and checking all transactions are included in the spreadsheet <p>I conclude that this Internal Control Objective has been achieved but I have made recommendations Nos 1 and 2 for improvement.</p>
D	The precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	<ol style="list-style-type: none"> 1. The Excel spreadsheet 2. Minutes of Fownhope Parish Council meetings. 3. Finance Working Group meeting notes 4. Finance statements presented to each Fownhope Parish Council meeting 	<ol style="list-style-type: none"> 1. A draft budget for year 2019/2020 was discussed at the Finance Working Group meeting 12 September 2018. It was discussed and approved at the Fownhope Parish Council meeting held on 3 October 2018. 2. The precept for year 2019/2020 was discussed at the Fownhope Parish Council meeting held on 3 October 2018. 3. Progress against budget is recorded on sheet Accounts of the Excel spreadsheet. 4. Finance reports are presented to Parish Council meetings. 5. The formulae in the spreadsheet updates the Accounts sheet with updates of Payments sheet and receipt sheet. 6. Allocation of Reserve Funds was discussed at the Finance Working Group meeting 24 July 2019

	Internal Control Objectives	Evidence	Findings
			I conclude that this Internal Control Objective has been achieved
E	Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	<ol style="list-style-type: none"> 1. The Excel spreadsheet 2. Minutes of Fownhope Parish Council meetings. 3. Bank account paying in slips 4. Bank account statements 	<ol style="list-style-type: none"> 1. The sheet Accounts of the computer spreadsheet shows that excess income was received over the expected income. This was partly due to donations being received for a renovation project for the community completed during the year. 2. VAT was recovered during the year and received in April 2018. 3. Most receipts are auto payments and I conclude that income was promptly banked. <p>I conclude that this Internal Control Objective has been achieved</p>
F	Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	<ol style="list-style-type: none"> 1. Fownhope Parish Council Financial Regulations 2. Minutes of Fownhope Parish Council meetings 3. The Excel spreadsheet 	<ol style="list-style-type: none"> 1. The Financial regulations state that the Fownhope Parish Council will not maintain any form of cash float. 2. The financial transactions recorded in the Payments sheet of the spreadsheet do not record any cash payments 3. The minutes for the Fownhope Parish Council do not record any cash payments. <p>I conclude that this Internal Control Objective has been achieved</p>

	Internal Control Objectives	Evidence	Findings
G	Salaries to employees and allowances to members were paid in accordance with Fownhope Parish Council's approvals and PAYE and NI requirements were properly applied.	<ol style="list-style-type: none"> 1. The Excel spreadsheet 2. Minutes of Fownhope Parish Council meetings. 3. Invoices 	<ol style="list-style-type: none"> 1. The only salary payable is that payable to the Clerk. 2. The salary is paid by cheque and the PAYE and NI requirements are dealt with through a payroll services company 3. Allowances and expenses are paid by cheque 4. Cheques are approved for payment at Fownhope Parish Council meetings. <p>I conclude that this Internal Control Objective has been achieved</p>
H	Asset and investment registers were complete and accurate and properly maintained.	<ol style="list-style-type: none"> 1. Fixed Assets Register sheet of the Excel spreadsheet 2. Finance Working Group meeting minutes 3. IAG (Investment Advisory Group) Report (May 2018) 4. Minutes of Fownhope Parish Council meetings. 5. Fownhope Parish Council Financial Regulations Appendix 1.0 Investment Strategy January 2018 	<ol style="list-style-type: none"> 1. The fixed asset register has been updated during this year but is incorrectly dated as 31.3.18. 2. The Asset Register was discussed at Finance Working Group meeting 24 July 2018 3. The investment of reserve funds was discussed at the Finance Working Group meeting 12 November 2018 4. The IAG report does not identify the details of the investment and I have not found details other than the names of the companies in the investment portfolio. <p>I conclude that this Internal Control Objective has been achieved but I have made recommendation No 4 for improvement.</p>

	Internal Control Objectives	Evidence	Findings
I	Periodic and year end bank account reconciliations were properly carried out.	1. The Excel spreadsheet file	<p>1. Sheet Cash Book recn in the spreadsheet is the bank account reconciliation. The arrangement of the formulae in the spreadsheet updates the Cash Book recn sheet with updates of Payments and Receipts sheets. The bank account balances are entered and the value of uncleared cheques is calculated from the payment sheet and entered. This identifies differences and allows regular reconciliations to be made.</p> <p>2. The year end values show no discrepancies and bank account reconciliations have been carried out properly.</p> <p>I conclude that this Internal Control Objective has been achieved</p>
J	Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate, debtors and creditors were properly recorded.	<p>1. The Excel spreadsheet</p> <p>2. Minutes of Fownhope Parish Council meetings.</p> <p>3. Notes of Finance Working Group meetings</p> <p>4. Invoices, remittance and payment advice notes</p> <p>5. Cheque book</p> <p>6. Paying-in book</p>	<p>1. Accounting statements were prepared on the correct accounting basis (receipts and payments) on the spreadsheet. Formulae and links in the spreadsheet show agreement with the cash book.</p> <p>2. The accuracy of receipts and payments values in the accounts spreadsheet was checked and debtors and creditors were properly recorded.</p> <p>3. Finance Statements presented to the Fownhope Parish Council include updates on bank balances but do not include details of total receipts and total payments which are included in the cash book.</p> <p>I conclude that this Internal Control Objective has been achieved but I have made recommendation No 5 for improvement.</p>

	Internal Control Objectives	Evidence	Findings
K	Trust funds (including charitable) – the Fownhope Parish Council met its responsibilities as trustee.	<ol style="list-style-type: none"> 1. The Excel spreadsheet 2. Correspondence with the Clerk to the Council 	<p>A Parish Councillor serves as a trustee for the Fownhope United Charities and the Parish Council receives a report from the Fownhope United Charities for the Annual Parish Meeting.</p> <p>Fownhope Parish Council has received donations and membership contributions for the Fownhope Community Land Trust (CLT) and this is held in the reserve account until the legal entity for the CLT has been completed when the money will be transferred to their bank account.</p> <p>I conclude that this Internal Control Objective has been achieved.</p>

Conclusion

After examining these documents, it is my opinion that the accounts are accurate, correctly balanced and show that the Fownhope Parish Council has implemented a satisfactory process for financial control.

I can therefore confirm that: -

- Appropriate accounting records have been kept throughout the financial year.
- The Council complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.
- The Council assessed the significant risks to achieving its objectives and reviewed the adequacy of the arrangements to manage these.
- The precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
- Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.
- Salaries to employees and allowances to members were paid in accordance with Fownhope Parish Council's approvals and PAYE and NI requirements were properly applied.
- Asset registers and investment registers were complete, accurate and properly maintained.
- Periodic and year end bank account reconciliations were properly carried out
- Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate, debtors and creditors were properly recorded.

Recommendations

I make the following recommendations with a view to encouraging the Council to make improvements in its systems for internal financial control for the current financial year ending 31 March 2020.

1. I recommend that the Risk Register is prepared in the format proposed in the Practitioners' Guide to Proper Practices, Governance and Accountability for Smaller Authorities in England. Appendix 1 – Risk Register. The example given in this document is fairly simple but if the format is adopted, the Fownhope Parish Council Risk Register and Risk Assessment would be combined. At present, the two documents do not appear to be linked. The risks would be documented and the appropriate steps to manage those risks identified with internal controls or external insurance cover. The risk assessment and internal controls need to focus on the safety of the Council's assets, particularly money². Risk management is also about protecting the achievement of objectives of the Council to deliver high quality public services³.

The Risk Register document would form the basis of Council members signing Assertion No 5 of the Annual Governance Statement.

² Governance and Accountability for Smaller Authorities in England, 2018 Section 1.15.7

³ Governance and Accountability for Smaller Authorities in England, 2018 Section 5.88

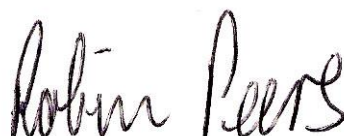
The document needs to be reviewed or amended if decisions or actions taken by the Council during the year could have an element of risk, either financial or reputational.

2. I recommend that the Fownhope Parish Council Financial Regulations Section 11 Risk Management is reviewed. I do not think that it fully covers the requirements for assessing the risks (impact and likelihood), the requirements for documenting and implementing control measures and the requirement for reviewing and updating the identified risks. This regulation should lead to the formal review and adoption of the Risk Register which in turn allows Item 5 of the Annual Governance Statement to be agreed. See also Recommendation No 1 above.
3. I recommend that the Fownhope Parish Council Financial Regulations Section 3 Budgetary Control is reviewed. It does not cover the current practice of approving salary payments annually as an annual subscription.
4. I recommend that the Council prepare a document to record the nature of its investments – those managed by the Investment Advisory Group and those in Reserve Bank Accounts. Item H of the Internal Control Objectives requires an investment register. This document could also define the nature of the stop-loss order arrangement implemented by the IAG for share dealing.
5. I recommend that the Financial Statements presented to the Parish Council meetings include total receipts and payments (and possibly progress against budget) as well as bank balances since this would give more information on the cash book reconciliation.
6. I recommend that work orders given to the appointed contractor for P3 and Lengthsman services are documented prior to commencement of the work. Although the Council's Finance Regulations do not require an official order for Lengthsman partnership projects, it may help to reduce the risk of the contractor incurring unbudgeted costs for the Council.

I would like to thank Mrs Helen Tinson, for her assistance.

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