

## **Foulness Island Parish Council**

*Internal Audit Report 2021-22*

---

*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 systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

We have, due to the ongoing Covid situation, undertaken this year's review remotely and thank the Clerk for providing all necessary supporting documentation not available on the Council's website in electronic format.

## **Internal Audit Approach**

In undertaking the review for 2020-21, 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 / AGAR. Our programme of cover has, as with all our clients, been designed to afford appropriate assurance that the Council's financial systems are robust and 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 Certificate' as part of the year's AGAR process, which requires independent assurance over a range of internal control objectives.

## **Overall Conclusion**

We have concluded that, based on the conclusion of our annual programme of work, the Council has continued to maintain generally adequate and effective internal control arrangements, although we have identified one or five areas where the Council needs to ensure compliance with statutory disclosure requirements and also possibly strengthen controls in other areas. Detail of the work undertaken on the Council's accounting and other records is set out in the following detailed report, together with all issues arising with recommendations further summarised in the appended Action Plan.

We have completed and signed the Internal Audit Certificate in the 2021-22 AGAR, with five negative assertions being required under Internal Control Objectives: A, B, C, J and M. We have concluded that, in all significant respects, the other control objectives set out therein were achieved throughout the financial year to a standard adequate to meet the needs of the Council.

# Detailed Report

## Review of Accounting Records & Bank Reconciliations

The Council's accounting records have again been maintained in Microsoft excel spreadsheet format. However, the spreadsheet currently in use has been significantly modified from the prior-year version and is not fit for purpose. This deficiency led to the incorrect calculation of the 2021-22 financial year-end disclosures of income, expenditure, closing balance, year-end reconciliation and completed AGAR to be presented for audit. This situation was corrected by us during the audit process, and the amended spreadsheet was forwarded to the Clerk/RFO.

We advise that the Clerk/RFO reverts to the use of the spreadsheet cashbook maintained by the previous Clerk/RFO which provides appropriate columnar analysis, the use of which would have prevented the errors in calculating the year-end accounting statements. We consider that spreadsheet, given the low level of annual transactions and the two bank accounts maintained with the Co-operative Bank, more than adequate for the Council's ongoing requirements.

We also noted that VAT had not been recorded correctly for several of the original cashbook entries. We also corrected this deficiency by reference to prime documentation supplied electronically.

We have checked and agreed detail of the amended and corrected cashbook entries to bank statements for the year also reviewing and agreeing the content of the year-end bank reconciliation and, consequently, verified the cash at bank balance disclosed in the AGAR for the financial year at Section 2, Box 8.

### *Conclusions and recommendation*

*As recorded above, the spreadsheet which was presented for the purposes of this audit was not fit for purpose and the manner in which it had been constructed lead to the failure to accurately income and expenditure during the year and the inaccurate disclosures of the year-end income and expenditure and an inaccurate year end reconciliation.*

*Resultantly, the Council has failed to meet the standard throughout the financial year to a adequate to meet the needs of this authority, and I have recorded a negative assertion against Control Objective 'A' in the Annual Internal Audit Report:*

*“Appropriate accounting records have been properly kept throughout the financial year”*

*R1. The Clerk/RFO should revert to the use of the previous spreadsheet maintained by the council, to ensure that the misreporting which occurred during the 2021-22 financial year does not reoccur again.*

*As recorded above, several payment entries were recorded inaccurately and did not record the correct VAT element of the transaction. We corrected this whilst we amended the spreadsheet cashbook to reflect the correct year-end balances. Obviously, the failure to record the correct VAT element will result in an incorrect s.126 VAT reclaim being made and the Council losing funds which it should reclaim for and on behalf of the electorate.*

***Resultantly, the Council has failed to meet the standard throughout the financial year to meet the needs of this authority, and I have recorded a negative assertion against Control Objective 'B' in the Annual Internal Audit Report:***

*“This authority assessed the significant risk to achieving its objectives and reviewed the adequacy of arrangements to manage these.”*

R2. *The Clerk/RFO must ensure that, henceforth, VAT is recorded accurately in the Council's Spreadsheet cashbooks to facilitate the correctly s.126 VAT reclaim being made.*

## **Review of Corporate Governance**

In this area, we aim to establish whether the Council is operating in accordance with best practice and has established a sound basis of governance controls. In order that we may assess the strength of the Council's controls from members' perspective we have reviewed the year's minutes and provided the clerk with a "Governance questionnaire" which has duly been completed and returned: the document aims to provide both us with a further measure of the effectiveness of the Council's governance arrangements and to ensure that members are fully aware of their fiduciary responsibilities when considering and signing-off the Governance Section of the year's AGAR.

We have previously noted that Members last reviewed and readopted its Standing Orders and Financial Regulations, based on the NALC model document at the Full Parish Council Meeting of the 10<sup>th</sup> March 2021 under Minute reference 9. We have examined their content and consider them appropriate for the Council's present requirements.

The Council's Code of Conduct was last Readopted at the Full Parish Council Meeting of the 9<sup>th</sup> September 2020 under Minute reference 11.

The Council hosts a basic website at <http://www.foulnessislandpc.org.uk/> we have noted that this is not hosted on a secure server. The site is content rich and as far as may be ascertained is currently compliant with the disclosure requirements of the Transparency Code for smaller councils. As at the date of this Internal Audit, the financial information for the 2021-22 financial year had not been published to the site.

We have noted that, as in the prior year, the 2021-22 Notice for the Exercise of Public Rights did not provide local electors with access to records for the statutory 30 working days. The Council's notice records the period published was for the 28<sup>th</sup> June to the 20<sup>th</sup> August 2021, a period of 40 days, not 30. When publicising the Notice for 2021-22 care should be taken to ensure that only 30 working days are recorded.

Due to the level of annual turnover, the Council will again be certifying itself exempt from the external audit process again in 2021-22

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

***As stated above, this is the second financial year in which the council failed to provide the correct period on the Notice for the Exercise of Public Rights. Resultantly, the Council has failed to meet the standard throughout the financial year to meet the needs of this authority, and I have recorded a negative assertion against Control Objective 'M' in the Annual Internal Audit Report:***

*“The authority, during the previous year (2020-21) correctly provided for the period for the exercise of public rights are required by the accounts and Audit Regulations (evidenced by the notice published on the website and/or authority approved minutes confirming the dates set).”*

R3. *The Clerk / Council must ensure that the appropriate statutory period of 30 working days is afforded to the electorate to examine the Council’s records.*

## **Review of Payments**

Given the relatively low number of payments during the year, we have checked all to supporting documentation to ensure that the following criteria have been met: -

- Payments were supported by a trade invoice or acknowledgement of receipt;
- VAT has been calculated correctly and is recovered at appropriate intervals.
- The Council has approved each payment.
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.
- Section 137 payments have been identified in the cashbook and are within the Council’s spending limit.

### **Conclusions**

*As we recorded in the Review of Accounting Records and Bank Reconciliations VAT had not, in all cases, been correctly recorded and payments had not been correctly analysed which resulted in the year-end statement presented for the purposes of this audit being inaccurate. We have already made recommendations for improvement in this regard.*

*We ask that the Clerk/RFO checks and verifies the Council’s s.126 VAT reclaim for the 2021-22 financial year, prior to submission, to confirm its accuracy.*

R4. *The Clerk / Council should check and verify the Council’s s.126 VAT reclaim for the 2021-22 financial year, prior to submission, to confirm its accuracy.*

## **Review of Assessment and Management of Risk**

We note that the Council employs the LCRS risk management software to maintain its Risk Registers which were last reviewed and readopted at the February 2021 meeting of the Full Parish Council under Minute reference 9. We further note that the Council has failed to undertake a formal review of its Risk Registers during the 2021-22 financial year.

We have examined the Council’s insurance schedule, noting that the Council’s insurance requirements are again serviced by AXA under policy number RGBDX6962034 under a three year, long-term agreement. The key features of the policy are listed below:

- Employers Liability      £10 million
- Public Liability        £10 million
- Products Liability      £10 million
- Hires Indemnity        £ 5 million

- Terrorist Act                   £ 2 million
- Clean-up costs               £ 1 million
- Data protection costs       £ 1 million
- Manslaughter costs         £ 1 million
- Safety legislation costs     £ 1 million
- Libel & Slander             £ 500 thousand

We consider this level of cover appropriate for the Council's immediate requirements.

We note that the Council is responsible for the management and maintenance of a children's playground: the Churchend Play Area. It is a matter of concern that the Council does not conduct regular visual inspections of the play area, and has no formal play area inspection forms to confirm visual inspections made.

We do note that RoSPA is retained to conduct the annual independent inspection of the play area and the Clerk/RFO advises us that the resultant report is submitted to Members for their scrutiny and action.

### ***Conclusions and recommendations***

***Although the council maintains its Risk Registers in the LCRS software, we note that there is no reference to the Risk Registers, Risk Management or Risk Mitigation formally recorded in the Council's Minutes for the 2021-22 financial year.***

***Resultantly, the Council has failed to meet the standard throughout the financial year to meet the needs of this authority, and I have recorded a negative assertion against Control Objective 'C' in the Annual Internal Audit Report:***

***"The authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these."***

***R4. The Clerk/FRO and Members must ensure that the Council's Risk Registers are properly managed, maintained, and formally Reviewed and Readopted, at least once annually at a meeting of the Full Parish Council recording the Resolution to do so in the Council's Minutes.***

***It is a legal requirement for all organisations which own, or are responsible for the maintenance of Playgrounds to maintain them in a safe condition. This requires the managing party to conduct regular visual inspections of all playground equipment, the playground environment, general conditions precinct and environs, fencing and signage, (it is considered 'Best Practice' that the person(s) undertaking visual inspections have attended a Playground Inspectors course run by RoSPA or other similar training organisation.) The outcome of these inspections MUST be recorded in appropriately designed Playground inspection forms and retained.***

***It is a mandatory legal requirement that all inspection reports, including the Annual Independent Inspection report are retained for a period of 21 years. Formally 18 years plus three years, as a person is able to bring a claim for injury in a playground, against the organisation responsible for its maintenance and safe operation, up to their obtaining 21 years of age.***

*NB: If a child has an accident in a play area, and the managing party cannot prove that it had a reasonable and proportionate Management, Risk Mitigation and Maintenance regime in place, with regular visual inspections and an annual independent inspection, the managing party is at risk of being found negligent in its duty of care and runs the risk of being the defendant of an unlimited liability claim for damages made against it.*

***Currently, the Council has no Playground Management policy or Playground Inspection forms in place and cannot, provide any clear evidence of an orderly and well managed inspection and maintenance regime. As such, the Council could be at risk of accusations of neglect, should an unfortunate incident take place, and a compensation claim made.***

- R5. *The Clerk/RFO should develop playground inspection forms to be used by any person responsible for conducting playground inspections on behalf of the council (sample report form provided under separate cover). These forms must be retained for the minimum period required by law (this may be undertaken electronically).*
- R6. *The Clerk/RFO and Members should consider providing appropriate playground inspectors training to persons responsible for conducting playground inspections on behalf of the Council.*
- R7. *The Clerk/RFO should develop a Playground Management Policy, to be Reviewed and Adopted by Members. (An example of such a document may be found via the following link: <https://tidworthtowncouncil.gov.uk/wp-content/uploads/2020/11/Playground-Risk-Management-v1.pdf> )*
- R8. *The Clerk/RFO and Members should establish a reasonable and proportionate playground inspection regime and associated time-based, fault escalation process for non-conformities identified in the Annual Independent Inspection and the routine inspections.*

## **Review Budgetary Control and Reserves**

We note that following a brief budget setting and precept determination process, Members Resolved to establish the 2022-23 financial year budget and precept, adopting the latter at £3,100 at the 1<sup>st</sup> December meeting of the Full Parish Council, under Minute 57iii. Of that date.

We note from the response in the Corporate Governance Questionnaire that Members received financial reports during the year, based on the spreadsheet which was in use which we have already commented on, together with detail of payments and receipts and bank balances.

We note that the Council does not hold any funds in Earmarked Reserves. The General Reserve as at the 31<sup>st</sup> March 2022 stood at £3,588.52 which equates to approximately 11 months' revenue spending at average FY2021-22 levels.

The Chartered Institute of Public Finance and Accountancy (CIPFA), current guidance is that smaller authorities should retain between 3 and 6 months of General Reserve fund based on prior year expenditure.

### **Conclusions**

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

## **Review of Income**

The Council receives, in addition to the annual precept, occasional income from burial and memorial fees, occasional donations, reclaimed VAT and small amounts of bank interest. We understand that there have been only one memorial related fee, six interment related fees and one donation during the 2021-22 financial year, all of which have been correctly recorded in the spreadsheet cashbook.

### ***Conclusions***

*There are not matters arising in this area of review warranting formal comment or recommendation.*

## **Petty Cash Account**

Foulness Island Parish Council does not operate a Petty Cash account. The Clerk/RFO and Members purchase items and seek reimbursement of funds, as mentioned above, in the 2021-22 financial year, via submission of payment documents and receipts rather than a proper Expense Claim.

### ***Conclusion***

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

## **Review of Staff Salaries**

We note that the new Clerk/RFO in post was employed from the 1<sup>st</sup> August 2021 under a NALC model contract with a starting salary based on the nationally agreed SCP 27 pay grade, pro-rata 12 hours per month for 12 months per year. The Clerk/RFO's contract is due to be reviewed on its anniversary in 2022.

We report that no issues have arisen from our testing of payments made to the Clerk/RFO with appropriate tax deductions being applied and paid over to HMRC quarterly during the year.

### ***Conclusion***

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

## **Review of Fixed Asset Register**

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We note the Council's compliance with this requirement; the Clerk maintains and manages an appropriate register with values identified both at cost price or, when unknown, at the best approximation thereto, together with the annually uplifted insurance value to assist with budgetary planning for future replacements.

We note that the Council's current Fixed Asset Register does not meet the basic requirements of the Practitioners' Guide. We have checked the existing Fixed Asset Register and verified, as far as it is possible to do so that the Fixed Asset Register Value declared for the 2021-22 financial



year, in the amount of £32,322 (32,322 prior-year) has been correctly reported in the Annual Return at Box 9 of Section 2.

*There are no matters arising in this area of our review warranting formal comment or recommendation. We have, however, supplied the Clerk/RFO with a basic Microsoft Excel spreadsheet Fixed Asset Register as an attachment to this report which is more appropriate for the requirements of the smaller authority.*

## **Review of Investments and Loans**

Our objectives here are to ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

The Council has no long-term investments. Further, as the public funds raised by taxation, administered by the Council do not exceed £35,000 the funds are fully covered by the Financial Services Compensation Scheme.

The Council has no loans, either owed, or let by it.

### **Conclusion**

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

## **Statement of Accounts and AGAR**

The AGAR now forms the statutory accounts for the Council subject to external audit review and certification. As recorded earlier in this report, the Council’s turnover is below the £25,000 threshold and it will again opt to exempt itself from the “Limited assurance” external audit process.

The Council’s financial accounts are managed in a single Microsoft Excel spreadsheet. The spreadsheet in which the detail of the Council’s accounts was presented for audit, had been constructed by the new Clerk/RFO in post during the financial year and has been commented on earlier in this report as being inadequate for the requirements of the smaller authority.

We have conducted a triple check and verification of all transactions, from the spreadsheet cashbook to the original bank statement to prime documentation and corrected the spreadsheet cashbook to ensure that it accurately reflects the year’s transactions as recorded therein. The corrected spreadsheet has also been used to provide detail for inclusion in the year’s Accounting statements, which we have also verified as being consistent with the accounting and other relevant supporting records.

We have also reviewed the procedures in place for identifying year-end debtors, creditors and accruals and agreed the detailed values recorded in the year-end Balance Sheet to the underlying records with no long-standing unpaid accounts or other issues arising.

## **Conclusions**

***Due to the deficiencies in the original spreadsheet cashbook, which have been described earlier in this report the Accounting Statements were also inaccurate and were corrected by the auditor who provided a corrected spreadsheet with the correct year end balances to the Clerk/RFO. Resultantly, the Council has failed to meet the standard throughout the financial year to meet the needs of this authority, and I have recorded a negative assertion against Control Objective 'J' in the Annual Internal Audit Report:***

*“Accounting statements prepared during the year were prepared on the correct accounting basis, agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.”*

***On the basis of the work undertaken during the course of our review for the year, we have “signed off” the Annual Internal Audit Report 2021-22 noting that internal control objectives A, B, C, J and M have not been met:***

-o0o-

### **NOTE TO REPORT**

***We confirm that all confidential & sensitive information, supplied for the purposes of this audit 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.***

# FY2022-23 Action Plan

Rec. No.	Recommendation	Response
<b>Review of Corporate Governance</b>		
R1	The Clerk / Council must ensure that the appropriate statutory period of 30 working days is afforded to the electorate to examine the Council's records.	
R2	The Clerk/RFO must ensure that, henceforth, VAT is recorded accurately in the Council's Spreadsheet cashbooks to facilitate the correctly s.126 VAT reclaim being made.	
R3	The Clerk / Council must ensure that the appropriate statutory period of 30 working days is afforded to the electorate to examine the Council's records.	
<b>Review of Assessment and Management of Risk</b>		
R4	The Clerk/RFO and Members must ensure that the Council's Risk Registers are properly managed, maintained, and formally Reviewed and Readopted, at least once annually at a meeting of the Full Parish Council recording the Resolution to do so in the Council's Minutes.	
R5	The Clerk/RFO should develop playground inspection forms to be used by any person responsible for conducting playground inspections on behalf of the council (sample report form provided under separate cover). These forms must be retained for the minimum period required by law (this may be undertaken electronically).	
R6	The Clerk/RFO and Members should consider providing appropriate playground inspectors training to persons responsible for conducting playground inspections on behalf of the Council.	
R7	The Clerk/RFO should develop a Playground Management Policy, to be Reviewed and Adopted by Members. (An example of such a document may be found via the following link: <a href="https://tidworthtowncouncil.gov.uk/wp-content/uploads/2020/11/Playground-Risk-Management-v1.pdf">https://tidworthtowncouncil.gov.uk/wp-content/uploads/2020/11/Playground-Risk-Management-v1.pdf</a> )	
R8	The Clerk/RFO and Members should establish a reasonable and proportionate playground inspection regime and associated time-based, fault escalation process for non-conformities identified in the Annual Independent Inspection and the routine inspections.	