

## **Fyfield Parish Council**

*Internal Audit Report 2023-24: Final update*

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*Stuart Pollard*

*Director  
Auditing Solutions Ltd*

## Background

Statute requires all town and parish councils to arrange for an independent Internal Audit (IA) 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).

This report details the work undertaken in relation to the 2023-24 financial year during our two on site visits on 9<sup>th</sup> October 2023 and 5<sup>th</sup> June 2024, together with preliminary work undertaken at our own offices. We thank the Clerk and councillors for their assistance in progressing the year's review.

## Internal Audit Approach

In undertaking this year's review of the Council's records, we have again paid due regard to the materiality of transactions and their susceptibility to any potential misrecording or misrepresentation in the accounting records and year-end Statement of Accounts / AGAR. Our programme of cover is 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 'IA Certificate' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

## Overall Conclusion

We note the switch from maintenance of the financial records (cashbooks) from a spreadsheet format to the bespoke "Xero" accounting software: we have identified a few concerns from an audit viewpoint with regard to the appropriateness of the new software to meet the requirements for the recording and reporting of financial transactions in the AGAR, detail of which is set out in the following report, with resultant recommendations further summarised in the appended Action Plan.

The Council's receipts and payments for 2023-24 individually fall below the £25,000 threshold requiring an external audit review for the year and the Council may, consequently, claim exemption from the external audit process completing a Part 2 AGAR and Exemption Certificate, which will need to be submitted to the external auditors. We have duly signed-off a Part 2 IA Certificate in the year's AGAR assigning positive assurances in the relevant areas with one or two negatives, detail of which is set out in the body of the following report.

We also take this opportunity to remind the Acting Clerk and Council of the need to publish all required documentation on its website in a timely manner in line with the guidance / requirements set out in the preface to the year's AGAR and to also ensure compliance with the timing requirements in relation to the Notice of Public Rights for the year.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

Our objectives in this area are to ensure that the accounting records are maintained accurately and in a timely manner with detail reconciled routinely to the bank accounts in use. The Acting Clerk has switched from the former spreadsheet format of book-keeping to use of the online “Xero” software. This software does not provide a cashbook in a recognisable format with, as far as we have been able to establish, no regular formal bank reconciliations being produced during the year and subjected to independent scrutiny and sign-off by a non-signatory on the Council’s bank accounts, contrary to the requirements of the adopted Financial Regulations (FRs – Para 2.2 refers) which states that - *“On a regular basis, at least once in each quarter, and at each financial year end, a member other than the Chairman or a cheque signatory shall be appointed to verify bank reconciliations (for all accounts) produced by the RFO. The member shall sign the reconciliations and the original bank statements (or similar document) as evidence of verification. This activity shall on conclusion be reported, including any exceptions, to and noted by the council.”*

We have, however, managed to agree the bank reconciliation at the financial year-end on the Barclays current account, which, together with the Barclays Business Premium account balance equate to the value to be reported in the AGAR at Boxes 7 & 8 for the year.

### *Conclusions and recommendations*

*As above, we have seen no indication that appropriate reconciliations have been prepared during the financial year as required by the adopted FRs, or that a formal reconciliation is in place at the year-end identifying the separate balances on the two bank accounts, as only the combined opening and closing balances are recorded on the Xero reconciliation.*

*We also have concerns as to the effective functionality of the “Xero” accounting software to meet the recording and reporting requirements of the Parish Council given the manner in which transactions are recorded, as no recognisable or formal record of cashbook / bank account transactions is in place leading to effective balancing of entries to bank statements on both accounts during the year. The system effectively also records income transaction as and when sales invoices are raised rather than recording them on the date of receipt.*

*Given this position, as suggested in our interim report, we urge that the Council reverts to using an appropriate and adequate spreadsheet format for recording the month-by-month transactions affording an effective means of producing a meaningful monthly or quarterly bank reconciliation for examination by an independent non-signatory councillor. Due to the absence of any formalised preparation and review of bank reconciliations during the year, we have to give a negative assurance at Box I of the IA Certificate in the year’s AGAR.*

R1. *Consideration should be given to the acquisition of a more appropriate and effective means of recording financial transactions during the financial year to facilitate effective monitoring of performance against an approved budget and agreement / reconciliation to bank statements.*

R2. *To ensure a formal approach is taken to the review and sign-off of quarterly bank reconciliations, as required by the adopted Financial Regulations (Para 2.2 refers), a periodic reconciliation statement should be produced in a standard reconciliation format.*

*R3. The bank reconciliations to be produced should include identification of the balances on both Barclays accounts rather than a combined value.*

## **Review of Corporate Governance**

Our objective in this area is to ensure that the Council has robust corporate governance documentation and procedures in place; that Council meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we may reasonably be expected to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We have examined the Council's minutes for the financial year and to date in 2024-25, as posted on the Council's website, to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability and are pleased to record that no such issues have been identified.

We note that both the SOs and FRs were revised during 2023-24 as recommended by ourselves: we have reviewed their content noting that they are now in line with the latest NALC models. We are also pleased to note that they both reflect compliance with the 2015 Public Contracts Regulations in relation to high-cost contracts, together with the Council formally agreeing a value of £5,000 for formal tender action where compliance with the requirement to publicise tenders on the Contract Finder website does not apply. Regarding that requirement, as advised last year, the value at which tenders must be formally advertised on the Government's website is now clarified as relating to tenders above £30,000 including VAT. Consequently, we urge that the Council's SOs and FRs are amended accordingly to reflect this clarification.

We also now advise that NALC has recently issued a revised model set of FRs and commend the document to the Council for adoption when the extant FRs are next reviewed and adopted. One caveat exists in that respect in that only affiliated members of NALC may apply the document, as it is covered by Copyright.

We note that the external auditors signed-off the 2022-23 AGAR with a few comments that will need to be considered when completing the 2023-24 AGAR. We remind the Council that the Accounts and Audit Regulations require the external audit certificate to be published on the Council's website, which does not appear to have happened for 2022-23, nor has the prior years' AGAR detail been published thereon.

We have been provided with a copy of the 2022-23 Notice of Public Rights noting that it refers to availability of records from 19<sup>th</sup> June to 29<sup>th</sup> July 2023, which is actually 1 day over the required 30 working days for the document's availability: we have also been unable to establish whether it has been posted on the Council's website.

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

***As the Council's individual total receipts and payments are individually below £25,000 for the financial year, although only marginally so for the payments, the Council may claim exemption from the external audit process and will be able to complete the Form 2 AGAR submitting the signed and dated AGAR Exemption certificate to the external auditors in accordance with the timing detail set out in the preface to the year's AGAR.***

***As a Council with an annual turnover previously in excess of £25,000, Fyfield has not been legally required to comply with the requirements of the Transparency Code for Smaller***

*Authorities: we are, however, pleased to note the inclusion of a raft of relevant and appropriate documentation on the Council's website including most of that legally required by the Accounts and Audit Regulations 2015 subject to the above observations. Due to the Council's turnover in 2023-24 falling marginally below the above threshold, we urge that, going forward, the Council ensures full compliance with the requirements of the Transparency Code publishing all required documentation on its website. We have, consequently, provided a copy of the Code to assist that process.*

R4. *In line with best practice, the Council should ensure compliance with the disclosure requirements of both the Accounts and Audit Regulations and Transparency Code for Smaller Authorities publishing all legally required information on its website.*

R5. *When preparing the 2023-24 Notice of Public Rights, care should be taken to ensure that provision is made for the specific legally required period of 30 working days.*

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- All payments are subject to appropriate approval in accordance with the Council's approved procedures;
- 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; and
- VAT has been appropriately identified for periodic recovery.

We have previously discussed with the former Clerk the procedures in place for approval of the payment of invoices and physical release of funds and consider them sound and appropriate for the Council's present requirements with members evidencing their review on each invoice. Due to the relatively low volume of annual payments, we have examined all those processed in the year to ensure their compliance with the above objectives with no issues arising.

We noted last year that a VAT reclaim covering 2021-22 transactions was prepared, submitted and repaid by HMRC in June 2022. We have seen no indication that any subsequent reclaim has been prepared in relation to VAT expended in either 2022-23 or 2023-24 and urge that a reclaim be prepared urgently to ensure recovery of the VAT expended in the two years.

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

***We are pleased to record that no significant issues arise in this area this year although, as indicated above, we urge that a VAT reclaim covering 2022-23 and 2023-24 is prepared and submitted to HMRC for reimbursement.***

R6. *A VAT reclaim covering expenditure in 2022-23 and 2023-24 should be prepared urgently and be submitted to HMRC for recovery.*

## Assessment and Management of Risk

Local councils are required to put in place appropriate arrangements to assess and manage all potential risks, financial and other, to which they may be exposed, also ensuring that appropriate insurance cover is in place.

We have seen no indication that the Council has reviewed and formally re-adopted its Risk Register during the financial year contrary to the requirements of the Governance and Accountability Manual – The Practitioner’s Guide. As far as we have been able to ascertain, the document was last reviewed and adopted in June 2022. We, reviewed the content last year and considered it appropriate for the Council’s requirements and, consequently, urge that the document be subjected to further review and formal re-adoption in the course of 2024-25.

The Council’s insurance cover is provided by the Local Council’s Scheme: we have duly reviewed the content of the 2023-24 insurance schedule with Employer’s and Public Liability cover both in place at £10 million, together with Fidelity Guarantee cover of £250,000 all of which we consider appropriate for the Council’s present requirements.

### *Conclusions and recommendation*

*As indicated above, the Council’s Risk Register should be subjected to annual review and formal re-adoption.*

*R7. The Council should ensure that its Risk Register is subjected to annual review, update (if appropriate) and formal re-adoption at least once annually.*

## Budgetary Control and Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the parent Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains sufficient funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate general reserves to cover any unplanned expenditure that might arise.

We note that, following due deliberation, the Council finalised its budget and precept deliberations for 2024-25 formally adopting the latter at £15,564 at the February 2024 full Council meeting.

The Council’s reserves at the financial year-end have further reduced to £12,034 (£15,806 at 31<sup>st</sup> March 2023): this equates to approximately 7 months’ revenue spending at the 2023-24 level and sits comfortably within the generally accepted range of between three and twelve months’ such spending.

### *Conclusions*

*We are pleased to record that no issues have been identified in this area this year.*

## Review of Income

The Council receives income in addition to the precept, primarily by way of burial and associated fees, Sports field hire fees and monthly recovery of the advanced PWLB loan to the Village Hall

Committee, plus small amounts of bank interest and the periodic recovery of VAT. We have agreed detail of income received to bank statements for the year and, where available, other supporting documentation including detail of the interments and memorial fees arising in the first half of the financial year, by reference to the underlying Burial records and the amounts received to the approved schedule of fees and charges.

As alluded to in our interim report, a number of concerns have been identified with regard to the appropriate identification and recovery of fees in respect of interments over the last few years with income seemingly incorrectly paid to the Diocese instead of the Council with all legally required and appropriate records similarly not being handed over to Council officers. We note that this situation continues to be actively followed up with some income due to the Council already recovered.

The adopted FRs (para 9.3 refers) require that fees and charges be reviewed annually: we noted last year that a review took place in March 2022 with members determining to retain the fees unchanged from their then values. We have seen no indication of any subsequent review and take this opportunity to remind members of the requirements of the adopted FRs.

Finally in this area, we note that in posting the monthly amounts (£147.07) recovered from the Village Hall Committee in relation to the previously advanced loan for the first five months of 2023-24 totalling £735.35 have been recorded in the Xero accounts as an offset against the final PWLB loan repayment instalment of £853.85 in August 2023, with only the net expense of £118.50 recorded in the Xero year-end accounts detail.

As the Council's accounts are prepared and recorded in the AGAR on a Receipts and Payments basis, rather than Income and Expenditure, the gross value of the year's receipt and payment must be reported in the AGAR rather than be offset (The Practitioner's Guide refers).

We also note the expressed intention to review and update the format of the existing burial fee structure (October 2023 minutes refer), but have seen no indication of that exercise being finalised. We also remind the Council that the adopted FRs require that all fees and charges be subjected to annual review and re-adoption (Para 9.3 refers).

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

***The Council will need to continue its negotiations with the Diocese to ensure that a complete record of the interments in the Council's cemetery is in place and maintained currently.***

*R8. Burial fees should be reviewed annually to ensure compliance with the requirements of the adopted Financial Regulations with detail of that review minuted formally, even where members determine to retain fees at the same level as previously.*

## **Petty Cash Account**

***The Council does not operate a petty cash account.***

## **Review of Staff Salaries**

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 HMRC legislation in relation to the deduction and payment over of income tax and NI deductions and employer contributions.

In reviewing the Clerk's salary, we have: -

- Noted previously that the Clerk has an appropriate employment contract in place with her salary paid in accordance with the agreed national NJC scale point;
- Noted that, following our previous recommendation, the current year's salary has been paid at a standard amount each month based on her contracted 9 hours per week, subject adjustment for the period of her sick leave;
- Noted that, based on her monthly gross salary payable, due to her currently advised tax code, no tax or NI deductions have been applicable for the year.

### **Conclusions**

*We are pleased to record that no issues arise in this area this year.*

## **Fixed Asset Registers**

The Practitioner's Guide requires all councils to maintain a record of its stock of owned assets also requiring that assets be recorded in a consistent manner value wise, each year with no depreciation or appreciation (as per insurance values) applied.

As recorded last year, we note that a formal asset register remains in existence, including photographs of the various assets owned by the Council, and have again reviewed the content, noting that the register includes scope for recording acquisition / installation dates; purchase price and replacement value. However, detail of the purchase price of the majority of these assets is unknown or is no longer identifiable, whilst the Village Hall is recorded as having a replacement value of £400,000.

Previous years' AGARs record an asset value at Section 2, Box 9 of marginally in excess of £31,000, a significant understatement of the Council's total asset value, bearing in mind that the Village Hall is, whilst leased to the Village Hall Committee which is a separate charitable body for which the Council acts as custodial trustee, actually owned by the Council and, as such, its value should be reflected in the AGAR Section 2 accounting detail at Box 9.

The Practitioner's Guide sets out detail of the basis for assigning asset values to be included in the AGAR requiring "donated" and "community" assets to be reported with a nominal £1 value. Given the obvious understatement of the asset value reported in the AGAR in prior years due to the exclusion of the Village Hall' value, the AGAR value for 2023-24 should be appropriately recorded with the Village Hall value included accordingly. The increased value will require explanation to the external auditors for the significant increase in value of the recorded assets: the 2022-23 value in the year's AGAR should similarly include that value and be annotated as "Restated".

We again suggest that a full review of the asset register is undertaken ensuring that it is fully up-to-date and records for each asset the date of acquisition and purchase cost (net of VAT) where known, together with the insured value and a photograph to assist in the event of any insurance claim arising from either accidental or wilful damage.

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

***As indicated above, where the purchase cost of assets is unknown, for 2023-24 and beyond, a realistic assessed purchase value should be assigned to each asset (net of VAT) with that updated value being reported appropriately in the AGAR, together with the assigned value for the Village Hall (£400,000) and the inclusion of values for any future acquisitions, less the formerly recorded value of any disposals.***

***R9. The existing asset register should be subjected to further detailed scrutiny ensuring that all Council owned and leased assets are recorded, although the value of the latter should be excluded from the asset value to be recorded in the AGAR at Section 2, Box 9. schedule.***

## **Investments and Loans**

The Council has no long-term investments, but had an outstanding loan repayable to the UK Debt Agency (formerly PWLB) for which full repayment occurred during 2023-24. As indicated earlier in this report, the Council receives a monthly loan repayment from the Village Hall Committee to service that loan. We have, as part of our payment review, recorded earlier in this report, checked the final loan repayment to PWLB resulting in a NIL balance being recorded in the AGAR at Section 2, Box 10.

### ***Conclusions***

***No matters arise in this area this year warranting formal comment or recommendation.***

## **Statement of Accounts and AGAR**

Section 2 of the AGAR now forms the Council's formal Statement of Accounts subject to external audit review and certification, where the annual turnover exceeds £25,000. As indicated earlier in this report, due to the level of receipts and payments individually during 2023-24 falling below the £25,000 threshold whereby the Council needs to submit an AGAR to the appointed external auditors, it may claim exemption from that process for 2023-24, completing a Part 2 AGAR and submitting a duly completed and Council adopted Exemption Certificate.

### ***Conclusions***

***We are pleased to record that no additional issues arise in this area this year to those referred to in the earlier sections of this report and we have duly signed off the IA Certificate in the year's Part 2 AGAR assigning a mix of positive and negative assurances as referred to above.***

Rec. No.	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	Consideration should be given to the acquisition of a more appropriate and effective means of recording financial transactions during the financial year to facilitate effective monitoring of performance against an approved budget and agreement / reconciliation to bank statements.	
R2	To ensure a formal approach is taken to the review and sign-off of quarterly bank reconciliations, as required by the adopted Financial Regulations (Para 2.2 refers), a periodic reconciliation statement should be produced in a standard reconciliation format.	
R3	The bank reconciliations to be produced should include identification of the balances on both Barclays accounts rather than a combined value.	
<b>Review of Corporate Governance</b>		
R4	In line with best practice, the Council should ensure compliance with the disclosure requirements of both the Accounts and Audit Regulations and Transparency Code for Smaller Authorities publishing all legally required information on its website.	
R5	When preparing the 2023-24 Notice of Public Rights, care should be taken to ensure that provision is made for the specific legally required period of 30 working days.	
<b>Review of Expenditure &amp; VAT</b>		
R6	A VAT reclaim covering expenditure in 2022-23 and 2023-24 should be prepared urgently and be submitted to HMRC for recovery.	
<b>Assessment &amp; Management of Risk</b>		
R7	The Council should ensure that its Risk Register is subjected to annual review, update (if appropriate) and formal re-adoption at least once annually.	
<b>Review of Income</b>		
R8	Burial fees should be reviewed annually to ensure compliance with the requirements of the adopted Financial Regulations with detail of that review minuted formally, even where members determine to retain fees at the same level as previously. <sup>8</sup>	

Rec. No.	Recommendation	Response
<b>Fixed Asset Registers</b>		
R9	The existing asset register should be subjected to further detailed scrutiny ensuring that all Council owned and leased assets are recorded, although the value of the latter should be excluded from the asset value to be recorded in the AGAR at Section 2, Box 9. schedule.	