

Susan Richardson**Acting Clerk & RFO****Ewshot Parish Council**

10 June 2019

Dear Susan

Ewshot Parish Council - Internal Audit 2018-19

The internal audit of Ewshot Parish Council for the 2018-19 financial year is now complete.

As stated in the engagement letter, the scope of our work is limited to completing the audit testing and enquiries we deem necessary to complete Section 4 of the Annual Report for Local Councils in England. We do not provide assurance over or accept responsibility for areas of work not included in this scope, unless specifically agreed with the Council in the course of the financial year.

In providing internal audit services we are not conducting a financial statement audit in accordance with standards and guidelines issued by the Audit Practices Board and our procedures are not designed to provide assurance over the reliability and quality of your financial statements and management information.

We are required by the Annual Internal Audit Report included in the Annual Governance and Accountability Return (AGAR) to review controls in place at the Council against predefined control assertions. These control assertions are set out below, together with the results of my internal audit work for 2018-19, which was carried out when I visited the Council on 8 May 2019.

Whilst I am able to conclude that the Council is complying with the majority of control assertions in the internal audit section of the AGAR, I am not able to sign off control objective B – Compliance with Financial Regulations. My reasons are set out in section B below.

I also set out a detailed schedule of recommendations for consideration by Councillors at Appendix A to this letter.

A - Appropriate books of account have been kept properly throughout the year

The Council uses an excel spreadsheet template to record transactions and prepare management and financial accounts. This is appropriate for a council of this size, and my testing confirmed that documents to support transactions could be readily located.

I confirmed that the opening balances on the excel workbook at 1.4.18, as recorded on the opening balance sheet, could be agreed back to the audited annual return for 2017-18. I also confirmed that the Council had met legal obligations and loaded the relevant sections of the annual return, external audit certificate and conclusion of audit notification to its

website. A completion of audit notice was published on 27 September, before the regulatory deadline.

The Council received a clear audit opinion in 2017-18, but 2 advisory notices were raised by the auditors:

- Incorrect note on box F of the internal audit statement – petty cash
- Issues around year on year variance working papers

However, there is nothing that needs to be taken into consideration in the 2018-19 accounts.

The initial draft of the accounts needed to be amended. The 2018-19 accounts had been prepared on the receipts and payments basis, however, the 2017-18 comparative figures had been prepared on the accruals basis. An accountant was employed to amend comparative figures so that both years were accounted for on the receipts and payments basis, which is appropriate for this smaller council. I was able to agree the restated 2017-18 figures and the 2018-19 figures into the Council's accounting records.

I reviewed the Council's VAT records and checked that the VAT return had been submitted to HMRC for the period to 31 March 2019, and that the VAT reclaimed could be agreed to a schedule of transactions recorded on the accounting system.

I am satisfied that the Council is meeting this control objective.

B - The Council's financial regulations have been met, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for

The Financial Regulations and Standing Orders were reviewed and approved at the annual council meeting in April 2018. NALC templates are used.

The Council approves expenditure via the annual budget process. Each month, the Council records the future expenditure to be made in the minutes of a council meeting, supported by a detailed list of payments. 2 councillor signatures are then required on the cheques, which are signed once councillors have inspected and signed off the supporting invoice. This system is compliant with financial regulations.

I recommend that the Council moves forward with plans to make payments electronically. Cheques are not secure, and are frequently lost by suppliers, and the closure of local banks is likely to make cheques less attractive to many suppliers in the near future. This will require the Clerk to work with Councillors to develop a system that operates effectively, but that is also compliant with financial regulations.

Other expenditure per box 6 to the accounts is £12,431 (2017-18 27,088 RESTATED).

I tested a sample of expenditure transactions and sought to confirm the following for transactions sampled:

- Cashbook entry could be agreed back to an invoice from the supplier
- VAT accounting correct
- Approval for the payment was recorded in a minute of a council meeting

- VAT correct
- 2 councillor signatures witnessed on cheque stubs.

I have identified 3 transactions where I do not believe financial regulations have been followed. These payments relate to payments to councillors for work completed in the village. Payments are as follows;

- £1,075 to G Bredin – repairs works
- £625 to B Cranstone - maintenance and construction work
- £125 to B Cranstone maintenance and construction work

Under financial regulation 10.3 members and officers are responsible for obtaining value for money, usually by obtaining three or more quotations from appropriate suppliers. I have seen no evidence that this occurred for this expenditure.

Under financial regulation 10.4 it is not permitted for a member to make any contract on behalf of the Council. I have seen no evidence in minutes to confirm that orders for this work were approved by the Council prior to work being undertaken.

Under standing order 7c, “a councillor shall withdraw from a meeting when it is considering a matter in which he has a disclosable pecuniary interest.” I have seen no evidence in minutes that this occurred when the decision was made to place the order for the work or to authorise payment for the work.

The total value of expenditure I believe to have been incurred without following financial regulations is £1,825, which is 15% of non-pay expenditure for the year. I consider this to be material and therefore I am not able to sign off that the Council has met this control objective.

I recommend that all Councillors are reminded of the contents of both Standing Orders and Financial Regulations, particularly with regard to placing orders for work. Minutes must provide clear evidence that

- It is the Council that is contracting with suppliers, not individual members
- Competitive quotes are obtained wherever possible
- Councillors are not involved in decisions where they have a pecuniary interest.

C - The Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

The Council is insured by Ecclesiastical, on a standard local council policy arranged by Came and Co. I reviewed the insurance certificate and confirmed it is in date with an expiry date of September 2019. I have reviewed the policy and it appears that asset coverage is adequate.

I have confirmed that the Council backs up computer remotely, with backups taken to the Cloud, back up has been tested by the permanent clerk.

I note that the risk assessment was considered at the May 2018 meeting of the Council and a separate minute provided. I have reviewed the risk assessment and consider it covers risks associated with Council of this size, it is a standard NALC template.

I am satisfied that this control objective has been met.

D - The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.

A detailed budget has been prepared for 2019-20. The budget was approved at January 2019 meeting of Full Council. There is scope to improve recording of the budget in minutes by reporting budgeted expenditure and income within the body of minutes, with the detailed budget for the year added as an appendix to minutes.

Budget reporting occurs on a quarterly basis to council. I checked the quarter 3 report, which clearly set out the budget position of the council – this had been reviewed by councillors and signed off accordingly.

Reserves at year end were £46,010 (2017-18 £34,325 RESTATED)

The Council has £28K in earmarked reserves, and 18K in the general reserve. The general reserve is 65% of precept. This is a little higher than I would recommend, although I understand this is due to underspends in 2018-19.

E - Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.

Precept per box 2 to the accounts is £28,994 (2017-18 £27,000). I have confirmed this figure to third party documentation supplied by external audit.

Other Income per box 3 to the accounts is £1,179 (2017-18 £2,594 RESTATED). No further testing was carried out at my audit, given the level of income collected by the Council,

I am satisfied that this control objective has been met.

F - Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.

No petty cash

G- Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.

Staff costs per box 4 to the accounts are £6,056 (2017-18 £5,628)

Payroll is currently processed externally, using a payroll bureau, FirmValue. Timesheets are sent to the bureau, who calculate payroll. Payment is approved at a council meeting. A payment is then made to FirmValue and pay is then transferred to the Clerk.

I tested December payroll from the cashbook. I agreed cashbook payment back to payment request from the payroll bureau. I was able to locate Clerk's gross pay from this document, and confirmed this back to the Clerk's contract.

The Council is meeting the requirements of this control objective.

H - Asset and investments registers were complete and accurate and properly maintained.

Fixed assets per box 9 were £107,340 (2017-18 £106,041). I have been able to reconcile the balance in the accounts back to the fixed asset register. There is a schedule in place to support additions purchased at cost in 2018-19.

I am satisfied that this control objective has been met.

I – Periodic and year-end bank account reconciliations were properly carried out.

Cash per box 8 to the accounts is £46,010 (2017-18 £34,325)

I note that bank balances are reported and minuted in minutes of Council meetings. I confirmed by review of the December 2018 bank reconciliation that it had been discussed at a Council meeting and that this review was noted in minutes. I checked that it had been signed off as reviewed by 2 councillors.

I reperformed the March 2019 bank reconciliation and was able agree figures in the reconciliation back to cashbooks and bank statements. The bank reconciliation had not been signed off as reviewed at the time of my audit, this will be done at the next meeting of the Council.

I am satisfied that this control objective has been met.

L - 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, were supported by an adequate audit trail from underlying records

The accounts have been prepared on the receipts and payments basis; this is appropriate for this smaller council. As the accounts were prepared on the accruals basis in 2018-19, it has been necessary to restate comparative balances. This has been done with the assistance of an accountant.

K - Trust funds (including charitable) The council met its responsibilities as a trustee.

No trusts

L – Inspection Periods

I provided advice to the Clerk on how to set inspection period for this set of accounts. The council will not be able to use the template provided by the external auditors as the Full Council meeting to approve the accounts is in late June. Care should be taken to ensure

- Inspection period begins after Full Council meeting
- Inspection period lasts for 30 working days

I would like to thank Susan for her assistance with the audit. I will invoice you separately, my invoice will include one hour additional time because of additional work relating to the amended accounts.

Yours sincerely

M Platten

Mike Platten CPFA

Points Forward – Action Plan -

Matter Arising	Recommendation	Council Response
<p>Cheques are not secure, and are frequently lost by suppliers, and the closure of local banks is likely to make cheques less attractive to suppliers in the near future.</p>	<p>I recommend that the Council moves forward with plans to make payments electronically. This will require the Clerk to work with Councillors to develop a system that operates effectively, but that is also compliant with financial regulations.</p>	
<p>The total value of expenditure I believe to have been incurred without following financial regulations is £1,825 which is 15% of non-pay expenditure for the year. I consider this to be material and therefore I am not able to sign off that the Council has met this control objective.</p>	<p>I recommend that all Councillors are reminded of the contents of both Standing Orders and Financial Regulations, particularly with regard to placing orders for work. Minutes must provide clear evidence that</p> <ul style="list-style-type: none"> - the Council is contracting with suppliers, not members - Competitive quotes are obtained wherever possible - Councillors are not involved in decisions where they have a pecuniary interest. 	
<p>A detailed budget has been prepared for 2019-20. The budget was approved at January 2019 meeting of Full Council.</p>	<p>There is scope to improve recording of the budget in minutes by reporting budgeted expenditure and income within the body of minutes, with the detailed budget for the year added as an appendix to minutes.</p>	