

Ernest G Newhouse

M.A., M.Sc.

Consulting Accountant

Tel: 01494 726915

80 Bois Lane
Chesham Bois
Bucks
HP6 6BZ

email: ernestnewhouse@talktalk.net

21 May 2015

Mr Duncan Eggar
Chairman, Aldbury Parish Council

Dear Mr Eggar,

Yesterday I met Mrs Bancroft, for whose welcome and hospitality I am grateful, to undertake the Internal Audit examination of Aldbury Parish Council in respect of the year ended March 2016. Most of what follows was discussed with Mrs Bancroft.

Mrs Bancroft has only been in post since October last year and since the 2015 elections there has been virtually a clean slate of councillors. The impression I received was of a new team which has started virtually from scratch, with very little reference to what had gone before. That said, the accounts appeared to be generally in good order but she and the Council understand that there is more to be done to achieve the standards which are required. None of what follows is a major criticism.

1. Accounting system

- 1.1. Last year I was told that a proprietary system was being introduced to replace the system of linked spreadsheets which had been in use for a number of years. I said that I welcomed this development.

This has not happened; Mrs Bancroft uses a very simple set of (unlinked) spreadsheets. These should be adequate for the small number of transactions involved.

- 1.2. Also last year, in the context of Risk Assessment and computer security, I recommended that consideration be given to using Cloud storage. Mrs Bancroft told me that she is proposing to use Dropbox, which should be fine. I am not sure whether there is an associated cost; I understand that OneDrive is free.

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I was however more concerned when she said that councillors would have access to the system. My worry is that the integrity of the data set could be compromised and I strongly recommend that councillors be given read-only access. There should however be provision for full access to working the system in case of emergency, for instance should the clerk be out of action – possibly her password in a sealed envelope deposited with Dacorum.

2. Section 137 payments

I repeat what I wrote last year.

These are payments for the benefit of the community at large, such as grants, for which specific legislative authority does not exist.

When such payments are presented to the Council for authorisation they are properly identified as S.137 payments. [I believe this is not now being done.] However, there is a cap on the total which the Council may make, related to the number of electors in the parish. The authorising agenda item and minutes should include a statement along the lines:

“This brings the total of S.137 payments made this year to £x, against the permitted maximum of £y”.

I recommend accordingly.

3. Cheque signing

Invoices are being properly authorised for payment at Council meetings by being scheduled in the Agendas and duly minuted. However when the cheques are signed, one of the signatories should initial and date the relevant invoice to confirm that it and the cheque are for the same amount.

There have been instances elsewhere of invoices being wrongly entered into the computer system and all the subsequent checking being made against computer prints and not the original documents. I recommend accordingly.

4. Bank Reconciliations

4.1. A reconciliation had been prepared showing the position at the year end. This is normally required to be sent in to the external auditors together with the Annual Return. However the total of the cheques issued but not presented for payment should be broken down to show the individual cheque numbers and amounts concerned. Any unbanked receipts should be treated similarly.

- 4.2. There is a requirement for reconciliations to be prepared 'periodically'. Monthly would be normal, but for councils with a small number of transactions, such as yours, quarterly should be acceptable. These should start from the current quarter.
- 4.3. The reconciliations should be examined, without undue delay, by a councillor who should initial and date both the reconciliation and the bank statements as evidence that former and the underlying computer records have been examined and found to agree.
- 4.4. Any cheques which remain unrepresented for more than 6 months may be written back. The credit should normally be to the cost centre which took the charge, but if the write-back crosses the year end, it may be better to take the credit to 'miscellaneous income'.

5. Price setting for income lines

This heading covers the allotments, tennis courts and the sports club. The charges for the allotments should be the subject of a formal review each year, even if the outcome is 'no change'. This would logically form part of the annual budget process. I understand that consideration is being given to asking the holders to set up standing orders. I would advise against this as it can prove remarkably difficult to get the holders to change them when the charge is increased. A system of regular invoicing should suffice.

I understand that the somewhat 'free and easy' approach to the tennis courts is being brought under control, after which the matter of the sports club will be considered. I would remind the Council that it has a duty on behalf of its constituents to maximise its income.

6. Budget Process, Precept Setting and Reserves

- 6.1. The budget process is essentially as it should be. The main review was in December for the precept to be advised to Dacorum in January. The process started rather late, for understandable reasons. I recommend that in future years it be started earlier, using the September accounts as the starting point. This would allow a review by the council in November, as well as December, should this prove necessary.
- 6.2. The schedules prepared for the review should include a column "Expected out-turn for the year", or similar. This could replace the existing "Expenditure to date", which does not lend itself readily to comparison with the other columns since these are all for a complete year.
- 6.3. I have commented in previous years on the high level of reserves in relation to annual expenditure. I was pleased to learn that there is now a strategy in place to deal with this.

7. Monitoring Performance

As yet there is not a system in place. Quarterly reporting should be adequate, using schedules similar to those prepared for the budget process, but obviously without the column: "Proposed budget for next year".

8. Fixed Asset Schedule

This is very much as in previous years. I understand one of your members had a number of issues under this heading.

- 8.1. It is reasonable to set a *de minimis* level, below which assets will not be capitalised. Clearly one would not wish to capitalise every stapler or screwdriver. However, while one chair might well come below this level, a set of 50 chairs for a hall should be recorded.
- 8.2. The asset register also acts as a useful inventory list, against which physical stock-takes can periodically be undertaken.
- 8.3. Assets should be recorded at original cost, where this is known, and should not be adjusted for inflation to current replacement cost.
- 8.4. Assets are not formally depreciated in local authority accounts. In cases such as yours, which are not prepared on an accruals basis, there is no means of recording a non-cash entry.
- 8.5. However, it is in order set up an earmarked reserve to provide for the replacement of a specified asset or class of assets, and to build this up over a period.

9. Risk Assessment

- 9.1. There is a comprehensive new financial risk assessment in place. Like many such documents it is full of procedures which are to be undertaken. The issue is whether the procedures have actually happened, what were the results and how is all this documented.
- 9.2. As regards physical risks, I was told that that this assessment was due for review in this coming year, 2016/17. Similar remarks apply and I would like to review both of these in the course of the next audit visit.

9.3. I have noted previously that:

The position has now improved in that the Warden has the task of carrying out a number of inspections. However there is still no record of whether, and if so when, particular inspections have taken place. I recommend that such records be included in the Risk Assessment files.

I understand that the work of the Warden will be included in the forthcoming review.

I should be pleased to answer any questions you or your members may have on this report.

Yours sincerely,

A handwritten signature in black ink that reads "Ernest P. Newhouse". The signature is written in a cursive style with a long horizontal flourish extending to the right.

E. G. Newhouse

ALDBURY PARISH COUNCIL

*Please reply to the writer at: Georgia, Trooper Road, Aldbury, Tring, Herts. HP23 5RW
e-mail: duncan.egg@outlook.com*

<i>Clerk</i>	<i>Councillors</i>
L. Bancroft	Duncan Eggar (chair)
7, Station Road	Penny Cobb
Long Marston	Graham Juniper
Herts	Rob McCarthy
HP23 4QS	Victoria MacGregor
	Bill Page
07590 989202	Michael Pearce
aldburyclerk@gmail.com	Lucy Tollinton

Ernest Newhouse
80 Bois Lane
Chesham Bois
Bucks
HP6 6BZ 13th July 2016

Dear Mr Newhouse,

Thank you for conducting the Internal Audit examination of Aldbury Parish Council and for the comments set out in your letter dated 21st May. As you note, the council is almost entirely a new team that started part way through the 2015/2016 year and Mrs Bancroft, our Clerk, was appointed in October. The appointment of this new team has allowed us to take a fresh look at the council's aims and objectives and at its administrative procedures and we hope that this will help us to better serve the interests of our parishioners.

I set out below my response to your observations and comments.

1 Accounting Systems

We considered the need for a proprietary accounting system and concluded that spreadsheets are appropriate for the relatively small number of transactions we have. This will be reconsidered should the number and complexity of these change. I am pleased that you agree with this approach.

We are in the process of moving all APC's administrative records - accounts, Minutes, agendas, etc. - to Dropbox. We will probably adopt Dropbox for Business in order that councillors can have (read-only) access to all appropriate files. Although this will be at a cost it will give us the necessary security, back-up and version control. We are reluctant to adopt 'free' services, believing in the old adage that 'there is no such thing a free lunch'.

Full access passwords will be kept by the chairman, vice chairman and one other nominated councillor for use in an emergency.

2 Section 137 payments

I confirm that in future any payments identified as S137 payments will be noted as such and that we will adopt the wording you suggest.

3 Cheque signing

We have instigated your proposal and now at least one of the cheque signatories will initial the relevant invoice (or other documentation).

4 Bank reconciliations

4.1 Recommendation accepted and will be enacted.

4.2 Reconciliations will be done at least quarterly and this has already started for the first quarter of 2016/17.

4.3 Accepted and started. All reconciliations will be agreed and initialled by a councillor.

4.4 Understood

5 Price setting for income lines

In future the Council will review annually the charges made for services (or land).

Your point regarding standing order payments by allotment holders is well made and accepted. Holders will continue to be invoiced and encouraged to pay in a timely manner. Similarly, procedures for collecting monies for use of the tennis court have been tightened.

I would take issue with your comment regarding our obligation to maximise income. We believe it is our duty to maximise value for our constituents and while this may mean increasing our charges this will only be done having given full consideration to the best interests of the parish and parishioners.

6 Budget Process

6.1 In future the Budget process will be started in October each year.

6.2 Noted

6.3 A reserves Policy is being developed to guide the council in future.

7 Monitoring Performance

In future we will monitor actual and budgeted expenditure each quarter although the timing of payments during the year are often unpredictable. However, such a procedure will encourage us to ensure that underlying 'action' is being carried out.

8 Fixed Asset Register

We have made some very small adjustments to the Register (removed items that for whatever reason no longer exist) and will, in future, create a reserve for the replacement of assets where appropriate.

9 Risk Assessment

Both the financial risk and the physical risk assessments will be reviewed in September.

I confirm that the role and duties of the Warden are currently being reviewed.

Thank you again for your work on the Internal Audit. Both councillors and parishioners appreciate your observations and comments.

Yours sincerely,

Duncan Eggar
Chair, Aldbury Parish Council