

# Ernest G Newhouse

M.A., M.Sc.

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16 May 2017

Mr R McCarthy  
Chairman, Aldbury Parish Council

Dear Mr McCarthy,

On 3 May, 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 2017. All of what follows was discussed with Mrs Bancroft.

Last year I commented that:

*The impression I received was of a new team which has started virtually from scratch, with very little reference to what had gone before.*

This time I found that matters were in a good state, with little to which I need draw your attention.

1. I began by reviewing the response to my report on the 2016 audit and was pleased to find that most of my recommendations had been implemented.

The response took issue, in a small way, with my comments about the duty to maximise income, which arose in connection with the tennis club. I do not wish to prolong this debate, but would only draw attention to the danger of favouring a small group of constituents, as it might be the tennis players, at the expense of the electorate as a whole.

2. Accounting system

- 2.1. Last year I observed that Mrs Bancroft uses a very simple set of (unlinked) spreadsheets which should be adequate for the small number of transactions involved.

- 2.2. In the course of this review an issue appeared which I discuss below under bank reconciliations. This led me to form the view that spreadsheets should be linked and developed to include the various balances. This is not a major task, and I would be happy to assist with it.

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### 3. Bank Reconciliations

- 3.1. These are now being reviewed monthly and initialled by a councillor. When the councillor reviews them, the date should be added to the initials. This applies to both the reconciliations and the bank statements.
- 3.2. The issue referred to above arose out of an entry of £40 in the payments spreadsheet labelled "Bank Correction" and posted to "Miscellaneous, (or other) expenses".
- 3.3. This apparently related to the routine automatic transfer of funds from the current to the deposit account, which at the end December had stood at £340 in the current account rather than the normal £300. A further transfer shortly afterwards removed the errant £40. The entries on the deposit account statements appeared to mirror, as they should, those for the current account.
- 3.4. In these circumstances, the £40 had not left the banking system and so should not have featured in the reported expenditure.
- 3.5. And yet, the reported receipts and payments appeared to balance to the statement of balances.
- 3.6. In the time available for the audit review, it was not possible to track down the reason for the anomaly, although I would be happy to assist with this on another occasion.
- 3.7. It would be a relatively simple matter to link the spreadsheets, so that the summary of receipts and payments would:
  - a. Be updated continuously as entries are made; and
  - b. Be extended to show the reserve at any time.
- 3.8. The reserve should then agree to the sum of the two balances shown in the bank reconciliations. Any posting error such as the £40 at issue should then be readily apparent.
- 3.9. I recommend accordingly.
- 3.10. The same schedules could then be extended for use in preparing the budget review.
- 3.11. This would have the added advantage that the level of the reserve consequent on the budget proposals would be immediately apparent.
- 3.12. I have provided Mrs Bancroft with a skeleton set of spreadsheets illustrating what I have in mind.

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4. Reserves

- 4.1. I have commented before on the high level of reserves in relation to annual expenditure. At present they stand at roughly 2 years of expenditure. However, a proportion of these may properly be described "Ear-marked reserves". An example is the grant received this year for work to be carried out next year.
- 4.2. A quick estimate suggested that earmarked reserves amount to about a quarter of the reserve.
- 4.3. I recommend that your reports show separately the earmarked and general reserves. The former should be itemised or analysed in a further schedule, depending on the number involved.

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, appearing to read "E. G. Newhouse", with a long horizontal flourish extending to the right.

E. G. Newhouse

## ALDBURY PARISH COUNCIL

*Clerk*                      *Councillors*  
L. Bancroft    Joe Brady  
7, Station Road                      Penny Cobb  
Long Marston                      Duncan Eggar  
Herts                      Graham Juniper  
HP23 4QS    Rob McCarthy (chair)  
   Bill Page  
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Ernest Newhouse  
80 Bois Lane  
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12<sup>th</sup> June 2017

6BZ

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 16th May.

I am pleased that you found matters in a good state and that you had little to which you wished to draw the council's attention.

To those matters upon which you do comment my responses are:

1. Understood and your comments have been noted.
2. We will look at linking the accounting spreadsheets.  
Thank you for your offer of assisting with this process. If the Clerk thinks she might need help she will contact you.
3. The £40 reconciliation discrepancy is being investigated to ensure it is not a systemic error. Your Recommendation is noted and we believe that the linking of the spreadsheets (per 2 above) should help ensure it does not happen again.
4. With respect to our Reserves we will follow your Recommendation and will establish 'ear marked' reserves for those expenditures that we know will occur at a future date.

It is important to the council that an independent and impartial party has sight of our accounts and systems and we are grateful for your constructive approach and the comments you provide.

Yours sincerely,

Rob McCarthy  
Chair, Aldbury Parish Council