



6 Uplands Road  
Farnham GU9 8BP

**Angela Baker**

**Clerk & RFO**

**Horne Parish Council**

11 May 2022

Dear Angela

**Re: Horne Parish Council**  
**Internal Audit Year Ended 31<sup>st</sup> March 2022**

Following completion of the final audit, the internal audit of Horne Parish Council for the 2021-22 financial year has now been concluded.

As reported at my interim audit, I have identified breaches of the Council's Financial Regulations with regard expenditure on the cricket pavilion. Details are set out in section B of this report. The Council will be required to mark box 3 - compliance with regulations – on the annual governance statement as “NO” when this is completed.

Aside from this, I have signed off all other sections the internal audit section of the Annual Governance and Accountability Return (AGAR) for 2021-22 with no comments.

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 during 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– that is the job of external audit.

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 in the detailed report, together with the results of my internal audit work for 2021-22.

The audit was carried out in two stages.

- The interim audit was completed on 15 November 2021. This concentrated on financial transactions for months 1-6, and governance controls.
- The final audit was carried out on 4 May 2022. At this audit I reviewed the statement of accounts, balance sheet and year end transactions.

## **A. Books of Account**

### **Interim Audit**

The Council continues to use a spreadsheet system for recording the day-to-day transactions, this is sufficient for a council of this size. I have tested the brought forward balances against the prior year annual return and can confirm these have been brought forward correctly. The system is used monthly to report and record the financial transactions of the Council and a review of the cashbook shows that all data fields are being entered, the hard copy reports are easy to read and logically filed and the cashbook is up to date. I make no recommendation for change. I checked arithmetic within the cashbook and found that formulas are correctly set.

The external audit certificate records a qualified audit opinion for 2020-21, as a number of errors were made on the annual governance statement. These should have been avoided, as these matters were set out in my final audit report. The Council should take care to follow internal audit recommendations when completing the AGAR.

VAT was brought up to date at the end of the last financial year, I have confirmed that the VAT claim was submitted to HMRC. No VAT return has yet been completed in 2021-22. Given the amount of VAT due to the Council at the time of this audit, I would recommend that a VAT claim is submitted as soon as possible.

### **Final Audit**

The accounting statements have been agreed back to the Council's excel workbook. All comparatives reported in the financial statements have been agreed back to the audited 20-21 accounts as published on the Council website.

I confirmed that the year-end VAT return has been completed and submitted to HMRC, VAT reclaimed was supported by a schedule of invoices as required by HMRC.

My interim report was considered at the Full Council meeting in January 2022. All recommendations were adopted, Council comments are attached in Appendix A.

I am satisfied that the Council met this control objective.

## **B. Financial Regulations & Payments**

### **Interim Audit**

Financial Regulations and Standing Orders were reviewed at the AGM on 5 May 2021

I selected a sample of 5 transactions amounting to £24.7K selected at random from the first 6 months of the financial year. For all transactions tested I was able to confirm that:

- Transactions could be agreed back to invoice
- VAT entered into VAT column on cashbook
- Payment approved at a meeting of the Council

Unfortunately, the bank does not retain records of who authorised payments beyond 28 days. I have not therefore been able to check that the bank payments have been authorised in line with financial regulations. Going forward, the Council should retain screen prints from the bank system to demonstrate proper authorisation of payments.

My transaction testing included a payment of £7,874 to Sherwood Electrical. This company is owned by Councillor Sherwood, and it is my understanding that Sherwoods undertook this work to expedite the cricket pavilion project. Issues had been experienced in finding a suitable contractor, and further delays has been caused by the pandemic.

The Council has not followed its own rules in placing work with this contractor. Table 1 below sets out Council regulations that I do not believe have been followed for this transaction;

<b>Regulation Ref</b>	<b>Requirements of Regulation</b>	<b>Horne PC decision with regard to this transaction</b>
Financial regulation 10.4	“a member may not make any contract on behalf of the Council”	I understand that the decision to allocate the work was made at a Cricket Club meeting , and not a meeting of the Council.
Financial regulation 1.14	“the Council must: approve any grant or a single commitment in excess of £5,000”	Commitment not approved at a Council meeting
Financial regulation 10.1	“An official order or letter shall be issued for all work, goods and services unless a formal contract is to be prepared or an official order would be inappropriate”	I am not aware any such document was issued
Code of Conduct	Registration of Interests to be completed within 28 days of member’s election or co-option	I have not been shown a register of interests for Councillor Sherwood
Code of Conduct	Where a matter arises at a meeting which is a sensitive interest ( including placing contracts where a councillor is director or has a beneficial interest ) then the member should not participate in discussion or a vote on the matter	There is no evidence in minutes that this occurred

I must therefore conclude that the Council has not followed regulations in this regard. The Council will also be required to mark box 3 - compliance with regulations – on the annual governance statement as “NO” when this is completed in May.

This is the second year running I have had to qualify my audit opinion due to non - compliance with regulations. I recommend that the Clerk should arrange some training for the Council in regulatory and governance matters before the end of the financial year.

### **Final Audit**

Non pay expenditure per box 6 to the accounts amounted to £46,800, up from £13,982 in 20-21. The increase is due to expenditure on the cricket pavilion.

I selected a further sample of invoices from the second half of the financial year. For all transactions selected, I was able to confirm

- Transactions could be agreed back to invoice
- VAT entered into VAT column on cashbook
- Payment approved at a meeting of the Council

Records of bank authorisations are not being retained as a matter of course, and the transaction history retained by the bank is poor. I could not therefore confirm that payments had been authorised in line with financial regulations. I recommend that printed records of bank authorisations are retained for all transactions going forward.

## **C. Risk Management & Insurance**

### **Interim Audit**

A regular review of risks is carried out and I am satisfied that all appropriate risks are documented. The Council's risk register is set out in tabular format and is sufficiently detailed for a council of this size. I note that the risk register was formally discussed at the Full Council meeting in May 2021 and a minute recorded. The Council has therefore met its obligations in this area for the current financial year, but the risk assessment must be kept under review.

The Council has improved its data storage solution since my last visit. Parish Council data is stored on the Council laptop, backed up to a cloud server. This is sufficient for a small organisation.

Insurance is in place with Zurich Municipal on a standard local authority package. Money cover and asset cover appear adequate, given the low asset and cash holdings of the Council. I confirmed insurance had been paid, and that it was valid until 31 May 2022. The Cricket Club building is not insured at present. I recommend that the Clerk contacts the insurer to notify them that the building is being refurbished and that insurance should be arranged.

### **Final Audit**

The Clerk obtained confirmation that the Cricket Pavilion was insured from the Cricket Club for 21-22 financial year. The building has been added to the Parish Council insurance from 1.6.22. From discussions with the Clerk, I believe this a sensible decision

- It is not clear from the lease that the Cricket Club is responsible for the insurance
- The building is a Parish Council asset and the Council must ensure there is adequate insurance cover in place

I am satisfied that the Council met this control objective.

#### **D: Budget, Precept & Reserves**

##### **Interim Audit**

Budget and precept for 2022-23 is being worked on at present. Budget will be discussed at December meeting , with precept and budget due for approval in January 2022.

I note that the finance reporting pack is produced for each council meeting. This includes the cashbook and bank reconciliation. I confirmed that this reporting occurred at the meeting in October 2021 and that all information presented to councillors at this meeting was up to date.

##### **Final Audit**

Reserves at 31 March 2022 were £58,740 ( 20-21 £86,106).

General reserves at year end were £31,740. This is more than 100% of precept which is in excess of recommended levels set out in the NALC Practitioners' Guide. .

Earmarked reserves of £27K are set aside as follows

Cricket Pavilion - Donation	15000
Pavilion	10000
Election	1000
Personnel	1000

It is recommended that the Council should review its reserve balances now the first tranche of spending on the Pavilion has been completed. This review should identify

- Council reserves to be set aside for the Pavilion
- Reserves to be set aside for other projects / contingencies
- The level of general reserve to be maintained ( I recommend 50% of precept)

The precept and budget for 22-23 were agreed at the Full Council meeting in January 22. Unfortunately the precept was not properly recorded in minutes. This must be taken to the next meeting of Full Council and the 22-23 precept recoded in minutes. I confirmed the precept request was sent to the district council on 21 January and a precept of £29,037 was requested.

I am satisfied that this control objective has been met.

## **E. Income**

### **Final Audit**

Precept per box 2 to the accounts was £25,250 (2020-21 £25,250). This has been agreed to third party documentation provided by external audit.

Income per box 3 to the accounts was £5,621 (2020-21 £36,603).

I tested 2 VAT receipts, with a value of £ 4,204 to VAT claims sent by the Council to HMRC.

I am satisfied that this control objective has been met.

## **F. Petty cash**

N/A - the Council confirmed it has no petty cash

## **G. Payroll**

### **Final Audit**

Staff costs per box 4 to the accounts were £11,437 ( 2020-21 £8,783). I confirmed that this cell in the accounts only includes costs relating to the Clerk's employment.

Payroll is processed by the Clerk using the HMRC Basics package. I tested payroll for the Clerk for October 2021. I agreed the payment from the cashbook back to payroll calculations and payslip. Gross pay per the pay slip has been agreed to the clerk's contract of employment.

## **H. Assets and investments**

### **Final Audit**

Fixed Assets per box 9 to the accounts were £38,033 ( 20-21 £5,908)

The figure in the accounts has been agreed to the fixed asset register. Increase is due to the works on the cricket pavilion I confirmed these items have been correctly added to the asset register at cost. The asset register correctly accounts for all assets at cost or proxy cost ( historic assets added to the register at a value of £1) This follows accounting rules set out in the Practitioners' Guide.

I am satisfied that the Council has met this control objective.

## **I. Bank reconciliations**

### **Interim Audit**

I checked that the bank accounts are reconciled and reported to Council on a regular basis, the accounts workbook containing the bank reconciliation is presented to each monthly meeting of Council. The reviewing councillor signs off the front of the accounts pack. This is not sufficient; the bank reconciliation and bank statement should be signed off by the reviewing councillor to demonstrate proper independent review of the bank reconciliation has been carried out.

I reviewed the September bank reconciliation and have identified an error. The cashbook figure is overstated by £5800. This is because the bank transfer of £5800 realised when the deposit account was closed has been treated as income due to the Council. This needs to be removed from the income tab, the bank reconciliation should then work. I have traced the £5,800 credit on the current account bank statement.

**Final Audit**

Cash per box 8 to the accounts was £58,740 (20-21 £86,106)

I reperformed the year end bank reconciliation. For all bank accounts I was able to agree the balance on the bank reconciliation back to bank statements and cashbook balances recorded on RBS.

The reconciliation had not been signed off at the time of my audit, but had been reported to the April meeting of Full Council.

I am satisfied that this control objective has been met.

**J. Year-end accounts**

Satisfactory – Accounts have been produced on a receipts and payments basis, this is appropriate as income and expenditure at the Council is below £200k.

An explanation of year-on-year variances will be prepared, I have agreed to check this with the Clerk before it is submitted to external audit.

I am satisfied this control objective has been met.

**L: The Authority publishes information on a free to access website/webpage up to date at the time of the internal audit in accordance with any relevant transparency code requirements**

The requirements of the Transparency Code 2015 do not apply to this Council, as gross income and expenditure is below £200K. This test is therefore not applicable at this Council and the internal audit report will be marked as not covered

**M - Inspection**

Inspection periods for 20-21 accounts were set as follows

<b>Inspection - Key date</b>	<b>2020-21 Actual</b>
Accounts approved at Full Council	21 June 2020 Full Council
Date Inspection Notice Issued and how published	22 June
Inspection period begins	23 June
Inspection period ends	3 August
Correct length	Yes

The minutes for the June 21<sup>st</sup> meeting were not shown on the website at the time of my review, this should be rectified. Otherwise, all regulatory requirements were met in this regard.

**N: Publication requirements 2020 AGAR**

The Statement of Accounts, Annual Governance Statement and the external audit certificate are published on the accounts page of the Council website. The Conclusion of Audit certificate is also published, dated 20 September 2021, which is after the date of the audit certificate, 11<sup>th</sup> September 2021. Publishing obligations with regard to last year's audit opinion have therefore been met.

**0. Trusteeship**

No trusts – confirmed with Clerk

Thanks for your assistance with the audit. I attach my invoice for your consideration, together with the internal audit report from the AGAR. Please do not hesitate to contact me if I can be of any assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Platten', written in a cursive style.

Mike Platten CPFA

## Appendix A – Recommendations

### Points Forward – Action Plan - Interim Audit

Matter Arising	Recommendation	Council Response
The external audit certificate records a qualified audit opinion for 2020-21, as a number of errors were made on the annual governance statement.	These should have been avoided, as these matters were set out in my final audit report. The Council should take care to follow internal audit recommendations when completing the AGAR.	All cllrs agreed to ensure rules and regs and followed and agreed to clerk booking training for all council
VAT was brought up to date at the end of the last financial year, I have confirmed that the VAT claim was submitted to HMRC. No VAT return has yet been completed in 2021-22.	Given the amount of VAT due to the Council at the time of this audit, I would recommend that a VAT claim is submitted as soon as possible.	This was done – delay in payment from VAT office.
Unfortunately, the bank does not retain records of who authorised payments beyond 28 days. I have not therefore been able to check that the bank payments have been authorised in line with financial regulations. .	Going forward the Council should retain screen prints from the bank system to demonstrate proper authorisation of payments	This will be done- chair and clerk to action
My transaction testing included a payment of £7,874 to Sherwood Electrical. The council has not followed its own rules in placing work with this contractor	The Council will also be required to mark box 3 - compliance with regulations – on the annual governance statement as “NO” when this is completed in May.	Yes
This is the second year running I have had to qualify my audit opinion due to non - compliance with regulations.	I therefore recommend that the Clerk should arrange some training for the Council in regulatory and governance matters before the end of the financial year	All council agreed
The Cricket Club building is not insured at present.	I recommend that the Clerk contacts the insurer to notify them that the building is being refurbished and that	Done

	insurance should be arranged.	
The reviewing councillor signs off the front of the accounts pack.	This is not sufficient; the bank reconciliation and bank statement should be signed off by the reviewing councillor to demonstrate proper independent review of the bank reconciliation has been carried out.	This is now properly checked
I reviewed the September bank reconciliation, and have identified an error. The cashbook figure is overstated by £5800. This is because the bank transfer of £5800 realised when the deposit account has been treated as income due to the Council.	This needs to be removed from the income tab, the bank reconciliation should then work. I have traced the £5,800 credit on the current account bank statement	done
The minutes for the June 21 <sup>st</sup> meeting were shown on the website at the time of my review	This should be rectified	done

**Points Forward – Action Plan - Final Audit**

Matter Arising	Recommendation	Council Response
<p>The precept and budget for 22-23 were agreed at the Full Council meeting in January 22. Unfortunately the precept was not properly recorded in minutes.</p>	<p>This must be taken to the next meeting of Full Council and the 22-23 precept recoded in minutes</p>	
<p>Records of bank authorisations are not being retained as a matter of course, and the transaction history retained by the bank is poor. I could not therefore confirm that payments had been authorised in line with financial regulations.</p>	<p>I recommend that printed records of bank authorisations are retained for all transactions going forward.</p>	
<p>It is recommended that the Council should review its reserve balances now the first tranche of spending on the Pavilion has been completed</p>	<p>This review should identify</p> <ul style="list-style-type: none"> <li>- Council reserves to be set aside for the Pavilion</li> <li>- Reserves to be set aside for other projects / contingencies</li> <li>- The level of general reserve to be maintained ( I recommend 50% of precept)</li> </ul>	