

TOPLIS ASSOCIATES LTD.

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TEL: 01543-419202

17 June, 2022

The Chairman
Cheddleton Parish Council
c/o Mrs L J Eyre, Parish Clerk
34, The Walks
Leek
Staffs ST13 8BY.

Dear Councillor

Conclusion of Internal Audit of your Parish Council For the year ended 31st March 2022

Following the completion of my work for the above year we are writing to inform the Council that having carried out the year-end review I have been able to sign the Annual Governance and Accountability Return Form 3 ("AGAR") but have had to qualify Internal Control Objective D (Precept Setting).

The independent internal examination of the Councils governance, financial affairs and certification of the 2021-22 AGAR to the External Auditor was carried out in accordance with the standards laid out in the Accounts and Audit Regulations, 2015 and embodied in the Joint Panel on Accountability and Governance Practitioners Guide March 2021.

In summary, we covered the following areas in our examination:

- Proper Bookkeeping
- Financial Regulations, Standing Orders and Payment Controls
- Risk Management and Insurance arrangements
- Budgetary Controls
- Income Controls
- Payroll Controls
- Asset Control
- Bank Accounts and Reconciliation
- Year End Procedures.
- Charitable Trusts (when appropriate)

This year we have carried out a review of your web site to evaluate its conformance to the Local Government Transparency Code 2015 which is to be viewed as a minimum standard. We confirm your web site meets this requirement.

We carried out two reviews during the fiscal year and were accorded with full co-operation by your Clerk. Any issues which we raised with the Clerk during the conduct of our work have either been satisfactorily rectified or are noted below.

A copy of our Annual Internal Audit certification (page 3 of the AGAR) for 2021-22 is attached.

We would wish to draw your attention to the "Publication Requirements" on page 1 of the AGAR

We would also wish to draw your council's attention to the following matters:

1. We note that your general reserves cover (after the exclusion of properly voted earmarked funds of £ 96,138) is 0.7 years. We consider this to be a generous level of general reserves balance at the year end. You will appreciate I am not allowed to instruct you on this matter but we have taken the liberty of attaching page 38 of the Practitioners Guide 2021 which in para 5.32 gives guidance on General Reserves;
2. Because we have qualified our Annual Internal Audit Report 2021/22 (Page 3 of the AGAR) your council must agree what steps it will take during the next budget and precept cycle to rectify the issue. It must then agree to write a letter, signed by the Chairman and Clerk, to the External Auditor (Mazars LLP) explaining the proposed steps being taken to rectify the issue.

In respect of the new Council year we make the following additional observations and recommendations for your consideration:

1. We recommend that during the fiscal year your council should review the Risk Assessment to ensure that it still reflects the current environment. Your council should then minute its ratification;
2. During the fiscal year your council should review your Standing Orders and Financial Regulations to ensure that they still reflect the current environment. Your council should then minute that ratification. Please note that it is important that your Financial Regulations meet the standard set by those published by NALC in July 2019. The Model Financial Regulations templates were produced by the National Association of Local Councils (NALC) in July 2019 and contain a number of important legal changes;

3. Copies of both your current Standing Orders, Finance Regulations and Risk Assessment should be displayed on your councils web site and must show the latest date of revision and ratification;
4. You are reminded that when the council discusses, amends or ratifies significant documents copies should be made available on your web site for members of the public to view. These documents should be either appendices to published minutes and agenda papers or as separate documents on the web site (preferably with a hypertext link to facilitate ease of searching);
5. You must discuss the appointment of your internal auditor and ratify and minute the appointment during the current financial year. We were pleased to have been your internal auditor during 2021/22 and offer ourselves for re-appointment. You may use either our company name or refer to Alan Toplis & Kim Squires by name in the minutes;
6. If your council wishes to carry forward earmarked funds at the yearend these must have been ratified by your council. This is best done at the time you draw up the next budget or at final meeting of the fiscal year.

It is your Council's responsibility to note these comments and to consider what action should be taken.

Can we take this opportunity to remind you that when the AGAR comes back from the External Auditor you do have a duty to display the accompanying notice of Completion of Audit on each of your usual notice boards and on your council's website.

The complete AGAR and any auditor's comments or qualifications should also be displayed on your web site to allow electors to see the complete card and read the External Auditors comments if they wish to do so.

In accordance with Regulation 13 (of the Audit and Accounts Regulations), after the conclusion of the period for the exercise of public rights), the authority must publish (including on its website) the annual governance statements, statement of accounts, and the external auditor's certificate and report – Sections 1, 2 and 3 of the Annual Governance and Accountability Return. Authorities must keep copies of these documents for purchase by a person at a reasonable sum and ensure that they remain available for public access for 5 years

Please do remember to retain a copy of the notice on file as proof that you have followed the requirements of the Local Government Act. You should also minute the External Auditors approval of the AGAR and any qualification or comments made and resolve to take action where necessary.

We will make our next visit in October/November but please do not hesitate to contact me should you require advice in the meantime.

Yours sincerely,

Alan Vordis

for a future capital project or while deciding how to apply the proceeds of an asset sale or a donation.

- 5.29. In deciding whether it is appropriate to make long-term investments, the authority should follow the Guidance on local government investments issued by MHCLG with effect from 1 April 2018.
- 5.30. The authority's investment strategy will set out management arrangements for the investments held and procedures for determining the maximum periods for which funds may prudently be committed. The strategy should ensure and demonstrate that the authority has properly assessed the risk of committing funds to longer term investments and complies with legislative requirements. Long-term investments in assets whose capital values may fluctuate carry considerable risks and require active management. Investment management is a specialist area. Authorities may wish to seek independent professional assistance when developing their investment strategy.

Reserves:

- 5.31. As with any financial entity, it is essential that authorities have sufficient Reserves (General and Earmarked) to finance both its day to day operations and future plans. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.
- 5.32. General Reserve — The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserve is that this should be maintained at between three (3) and twelve (12) months Net Revenue Expenditure (NRE). NRE (subject to any planned surplus or deficit) is effectively Precept\Levy less any Loan Repayment and/or amounts included in Precept\Levy for Capital Projects and transfers to Earmarked Reserves. The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent General Reserve. In all of this it is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget so as to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.
- 5.33. Earmarked and Other Reserves — None of the above in any way affects the level of Earmarked and/or Capital Receipts Reserves (EMR/CRRs) that an authority may or should hold. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from Internal and/or External Auditors.

Annual Internal Audit Report 2021/22

Cheddleton Parish Council

cheddleton-pc.org ENTER PUBLICLY AVAILABLE WEBSITE/WEBPAGE ADDRESS

During the financial year ended 31 March 2022, this authority's internal auditor acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with the relevant procedures and controls in operation and obtained appropriate evidence from the authority.

The internal audit for 2021/22 has been carried out in accordance with this authority's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions are summarised in this table. Set out below are the objectives of internal control and alongside are the internal audit conclusions on whether, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of this authority.

Internal control objective	Yes	No*	Not covered**
A. Appropriate accounting records have been properly kept throughout the financial year.	✓		
B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	✓		
C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	✓		
D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.		✓*	
E. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	✓		
F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.		NO PETTY CASH KEPT ✓	
G. Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.	✓		
H. Asset and investments registers were complete and accurate and properly maintained.	✓		
I. Periodic bank account reconciliations were properly carried out during the year.	✓		
J. 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, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.	✓		
K. If the authority certified itself as exempt from a limited assurance review in 2020/21, it met the exemption criteria and correctly declared itself exempt. (If the authority had a limited assurance review of its 2020/21 AGAR tick "not covered")			✓
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	✓		
M. The authority, during the previous year (2020-21) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations (evidenced by the notice published on the website and/or authority approved minutes confirming the dates set).	✓		
N. The authority has complied with the publication requirements for 2020/21 AGAR (see AGAR Page 1 Guidance Notes).	✓		
O. (For local councils only)	Yes	No	Not applicable
Trust funds (including charitable) – The council met its responsibilities as a trustee.			✓

For any other risk areas identified by this authority adequate controls existed (list any other risk areas on separate sheets if needed).

* SEE ATTACHED SUPPLEMENT TO PAGE 3 OF AGAR.

Date(s) internal audit undertaken

Name of person who carried out the internal audit

10/11/2021

15/06/2022

ADMINISTRATIVE

A.Toplis/K.Squires-Toplis Associates Ltd

Signature of person who carried out the internal audit

Alan Toplis

Date

17/06/2022

*If the response is 'no' please state the implications and action being taken to address any weakness in control identified (add separate sheets if needed).

**Note: If the response is 'not covered' please state when the most recent internal audit work was done in this area and when it is next planned; or, if coverage is not required, the annual internal audit report must explain why not (add separate sheets if needed).

Cheddleton Parish Council

Annual Internal Audit Report 2021/22

(This document is a supplement to page 3 of 6 of the Annual Governance and Accountability Return ("AGAR") 2021/22, Part 3 and is intended to be read and published with that document). Copies of this document must be displayed with the AGAR and forwarded to the External Auditor.

Internal Control Objectives

Internal Control Objectives (as per page 3 of the accompanying AGAR). Headings in *Italics* are a direct copy of the objectives in the AGAR

- A. *Appropriate accounting records have been properly kept throughout the financial year.*

YES

- B. *This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.*

YES

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

YES

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

NO

As a response to two complaints about the process for compiling the 2022/23 precept and the resultant size of the increase we carried out a thorough investigation of that methodology and the eventual precept set.

In relation to the budget reporting and monitoring throughout 2021/22 we found no faults and the level of cost centre reporting and frequency of monitoring was perfectly adequate for a parish council of this size.

You properly set and approved ear marked funds and these were properly agreed and minuted in council records and the RBS accounting system. It is not unusual for ear marked funds to be estimated during the precept process and further confirmed before the fiscal year end.

In respect of the process for setting the 2022/23 precept we found a single omission which could have made a small (less than 5% difference in the precept estimate which the council should have considered and used to defray the precept claim if so minded.

The omission is that in considering the precept the council did not take into account the predicted free funds as at 31/03/22.

To make this information available the Clerk (in conjunction with the relevant committees) would have had to make an estimate on a cost centre by cost centre basis of the likely income and expenditure in the remaining months of the fiscal year. This process would be done twice, firstly at the time of the first cut budget estimates, secondly at the time of the full council's approval of the following fiscal years budget and resultant precept.

The RBS accounting system used by the parish council does provide facilities for recording "Projected" and Committed" spend for the remainder of the current fiscal year and this then would have generated a predicted free funds position.

We find that if free funds had been taken into account the council could have potentially reduced the eventual precept demand by a maximum c£3,500 (less than 2 pence per week impact on the band D rate) had it been so minded.

HOWEVER

We also find that there were a number of areas where your council and its committees under provisioned in its ear marked funds estimates as we believe that the figures provided for two major building improvement projects are significantly underfunded.

With the benefit of hindsight we also feel that the estimates you budgeted for major utility purchases (electricity and gas) are significantly under budgeted.

When all these factors (plus and minus) are taken into account the actual precept set was within £4,000 of the likely amount needed for 2022/23.

We also received a complaint that a proposal to reduce the proposed 2022/23 precept from £80,000 to £72,100 was tabled but rejected by the full council after a properly conducted vote. The council had every legal right to take this action. Had the council accepted the counter proposal (which also failed to take into account year end free funds) it would have resulted in a six pence per week reduction (for a band D property and significantly less for those below) in the precept levied. Whilst we do appreciate that every penny counts we do not believe that the External Auditor will consider this "significant" when we bring it to their attention. Had the proposal have succeeded you would have potentially under budgeted which could have prevented you from achieving all your objectives during 2022/23!!

We would comment that cutting ear marked funds and artificially under budgeting only leads to steeper increases in future years. If a project is worthwhile doing or is essential it must be properly funded.

We are concerned that all your full council and in particular the finance committee failed to pick up the omission of free funds in the calculation of the 2022/23 precept and we therefore recommend the following actions:

- a. At the commencement of the 2023/24 precept process (October 2023) we will time our interim audit to coincide so that we can carry out a step by step review of the precept methodology and the robustness of the estimates for Projected, Committed and Next Year budget. This will at least ensure that the precept does pick up free funds. We must

point out that this process relies totally on your committees and the full council controlling expenditure, gaining predicted income and predicting income/spending for the remainder of the 2022/23 fiscal year. It would be our objective to ensure that cover at year end does not exceed the minimum recommended (0.25 years) plus a maximum of a further 0.15 years. The audit year end resulted in a cover of .75 (down from 1.27 in 2020/21;

- b. That the Clerk and members of the Finance Committee (and preferably the full council) should attend a tailored course of budget and precepts setting as clearly there are some areas of incomplete or inaccurate knowledge. The External Auditor may wish to reinforce this recommendation. We are happy to recommend the source of such courses.

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

YES

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

Not applicable. No petty cash kept.

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

YES

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

YES

- I. Periodic bank account reconciliations were properly carried out during the year.*

YES

- J. 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, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded..*

YES

- K. If the authority certified itself as exempt from a limited assurance review in 2020/21, it met the exemption criteria and correctly declared itself exempt*

Not applicable

- 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.*

YES

- M. The authority during the previous year (2020-21) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations (evidenced by*

the notice published on the website and/or authority approved minutes confirming the dates set).

YES

N. The authority has complied with the publication requirements for the 2020/21 AGAR

YES

O. Trust Funds (including charitable) – The council met its responsibilities as a trustee.

Not applicable

Other matters requiring attention

NONE

Signed



Internal Auditor

Date

17th June 2022