



Final Internal Audit Report

Colney Heath Parish Council - 2019/20

June 2020

Issued to: Lisa Chaplin – Clerk / RFO to the Council

**Parish Clerk/RFO
to provide copies
to:** Colney Heath Parish Councillors

Report Status: Final

Reference: Z360/20/001

**Overall
Assurance:** Good

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1. EXECUTIVE SUMMARY

Introduction

- 1.1 This review was undertaken as part of the planned provision of internal audit services to Colney Heath Parish Council.
- 1.2 Colney Heath is a parish covering a wide area within the St Albans district, with a population of approximately 4,450 residents. The parish comprises 3 wards, namely Highfield, Hill End and Colney Heath. These cover the areas of Highfield Park, Oaklands, Colney Heath, Smallford, Sleafshyde and Tyttenhanger. There are 9 parish councillors.
- 1.3 The purpose of the tests performed during the audit is to give the Parish Council assurance that internal controls are operating effectively and to enable the Annual Governance and Accountability Return (AGAR) to be completed and signed.

Overall Audit Opinion

- 1.4 In relation to the Parish Council's internal control framework, our overall audit opinion is that we can provide **Good Assurance** that there are effective controls in operation for those processes covered by this review. These are detailed in the Assurance by Risk Area table in section 2 below. In reaching our overall assurance opinion we have concluded all areas reviewed during our audit had a sound level of internal control. For definitions of our assurance levels, please see Appendix C.
- 1.5 It should be noted that internal control objectives F. and K. of the AGAR have not been reviewed because they do not apply to the Parish Council.

Audit Commentary

- 1.6 Our audit included sample checking the application of some processes to confirm that the Council's Financial Regulations had been applied in practice. We noted only a small number of minor differences between the two. We also identified some other minor findings during our review, from which we have not raised any recommendations in the Management Action Plan. These minor findings are instead noted here for completeness only. Firstly, we reviewed the pecuniary interests completed by the Parish Councillors. In this respect, we identified one Councillor had declared a pecuniary interest at a meetings regarding the 'Air Raid Shelter'. However, this interest did not appear to have been included on their pecuniary interest form. In addition, another Councillor declared at a meeting that they were no longer a trustee of the Colney Heath Village Hall Council. However, this interest did not appear to have been removed from their pecuniary interest form (or an amendment made). We therefore suggest that whenever possible pecuniary interest forms are updated to reflect any changes that may take place.
- 1.7 The Accounts and Audit Regulations 2015 set requirements regarding the exercise of public rights. We reviewed the Council's website to determine if requirements have been met for the 2018/19 accounting period and were able to confirm the following information was available; access to the audited statement of accounts and annual governance statement, statement regarding the period for exercise of public rights and

a statement outlining that residents have the right to inspect, question and challenge the accounts along with guidance from the National Audit Office.

- 1.8 During the audit our sample testing identified a small number of minor VAT inaccuracies. These related to just three transactions which appear to have been included on the VAT return for the wrong tax point. In addition, we noted that the VAT detail from the Cashbook, which is submitted as part of the VAT return, had an incorrect invoice date in four cases. We also noted a single entry had been used on the Cashbook detail for suppliers who have provided multiple invoices in a specific period. An example is invoices received from the Council's grass cutting contractor. These invoices have different dates but have been included under one date on the VAT return. Whilst administratively expedient, this has resulted in inaccurate dates being logged on the VAT return (these have ultimately not affected the VAT being reclaimed). We therefore suggest that VAT claims are made during the correct tax point and wherever possible dates included on the detail Cashbook for VAT returns correspond to the invoice received. Should multiple invoices be received from the same supplier in a VAT return period, we suggest that the detail Cashbook shows each individual invoice date along with the corresponding VAT being reclaimed.
- 1.9 The budget monitoring reports and minutes received by Councillors were reviewed. Councillors receive a 'Cost Centre Report' showing variances between the actual year to date expenditure and the current annual budget, whilst an additional column also shows the budget expenditure to date as a percentage. Whilst variances are provided, we noted that the report does not provide a 'profile expenditure' for the year to date. It is suggested that the addition of a budget profile may benefit some Councillors by giving them information on how much of the budget should be spent at points in time. We have however not raised a recommendation in this respect. In addition, we reviewed the Finance Committee minutes where budget monitoring had taken place and could see that the minutes included statements such as "Members were given the opportunity to ask questions on each page before proceeding" and "The variance report was noted and discussed". However, we noted that the meeting minutes do not usually detail the questions and resulting discussions from Councillors on the budget, but we have received management assurance that appropriate discussion and challenge were made at the time.
- 1.10 Bank reconciliations were reviewed for the Current, Business Direct Reserve and the Metro Bank accounts. We identified that for a small number of reconciliations, the date of the reconciliation was not accurate. For example, the Metro account bank reconciliation for March 2020 was shown as the 'Bank Reconciliation statement as at 01/11/2019', while the statement date was shown as 30/11/2019. We were reassured by staff that these were simply administrative errors, that timely bank reconciliations had taken place and the errors ultimately had no effect on the bank reconciliation itself.
- 1.11 The payroll information and contract for the Common Ranger were reviewed as part of the audit. We noted that the contract of employment states 'The National Agreement on Pay and Conditions of Service of the National Joint Council (NJC) for Local Government Services (the 'Green Book') applies to your employment save as amended by this contract' and salary 'will be increased in line with future nationally negotiated NJC pay awards'. However, a review of the March 2019 payroll report, along with the NALC NJC for Local Government Services, showed that the staff member was not paid on any identifiable pay-scale for 2018/19. Similarly, the April 2019 and February 2020 payroll reports were reviewed, and it was determined that the

staff member was not paid on any identifiable NJC scale for 2019/20. In the cases mentioned, the staff member was paid below the lowest NJC scale on the documents provided to us by the Council. It is suggested that the employee's contract of employment be revised accordingly.

Summary of Recommendations

- 1.12 Any recommendations for potentially improving internal control are included at Appendix A. To help strengthen the internal control environment, there is one low priority recommendation made as part of our audit. The audit work undertaken is also shown at Appendix B.
- 1.13 It should be noted that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity.

Annual Governance Statement

- 1.14 This report provides good levels of assurance to support the Annual Governance Statement.

2. ASSURANCE BY RISK AREA

2.1 Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide the Council with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Risk Area	None	Limited	Satisfactory	Good
Maintenance of proper accounting records and preparation of accounting statements				
Compliance with the Council's Financial Regulations and proper accounting for VAT				
Adequacy of Risk Management arrangements				
Effective budgeting and budgetary control				
Identification of income due and timely collection and banking of such monies				
Proper administration of petty cash	N/A	N/A	N/A	N/A
Proper administration of salaries of employees including PAYE and allowances for Town/Parish Councillors				
Maintenance of an accurate and reliable Asset Register				
The completion of regular bank reconciliations				
To ensure that the annual return is being completed				
The Council has met its responsibilities as a trustee.	N/A	N/A	N/A	N/A
Overall				

2.2 See definitions for the above assurance levels at Appendix C

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p data-bbox="181 268 734 1225">Financial Regulations</p> <p data-bbox="181 344 734 1225">The Councils Financial Regulations were reviewed to ensure they were accurate based on the processes operated by the Council in practice. For some of the Financial Regulations, we found that they did not reflect the actual practices of the Council. Examples include regulations 3.1 and 3.3, relating to three-year forecasting, which management informed us is not actually operated by the Council. In addition, regulation 14.5 outlines that a report in writing and full business case should be provided to the Council when purchasing tangible moveable property. However, we were informed that verbal discussions and debates are instead operated by the Council. We have also reviewed private session minutes from the Council (21/03/19) and confirmed that the purchase of a second laptop was resolved.</p> <p data-bbox="181 1270 416 1302"><u>Associated Risk</u></p> <p data-bbox="181 1347 734 1409">The Councils Financial Regulations may not be representative of the</p>	Low / Advisory	<p data-bbox="936 344 1173 376">We recommend:</p> <ol data-bbox="952 421 1429 783" style="list-style-type: none"> <li data-bbox="952 421 1429 596">1. The Financial Regulations of the Council are reviewed and adapted to reflect the true operating practices of the Council. <li data-bbox="952 641 1429 783">2. This should be completed in line with the Councils formal procedures, including approval by Councillors. 	<p data-bbox="1444 421 1883 676">This report along with suggested amendments as a result of the internal audit for 19/20 will be addressed at a Finance & Governance Committee meeting being held on 9th July 2020.</p> <p data-bbox="1444 721 1883 855">All comments noted by RFO and will be highlighted when this reported is presented to Council on 23rd July 2020</p>	

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>operated processes and procedures. This could result in reduced clarity of the operational requirements for staff, councillors and the public. The inclusion of regulations not operated could potentially also undermine the strength of the Financial Regulations. This could ultimately lead to the appearance of weaker governance and control.</p>				

Area	Control	Control Satisfactory
1. Maintenance of proper accounting records and preparation of Accounting Statements	• Accuracy of Accounting Records	Yes
	• End of Year accounts	Yes
2. Adoption of the Council's Financial Regulations, Contract Standing Orders and Governance	• Financial Regulations	Yes
	• Standing Orders	Yes
	• Meeting Minutes and declaration of conflicts of interest	Yes
3. Payment Controls including treatment of VAT and Section 137 expenditure	• Payment of invoices	Yes
	• VAT on payments	Yes
	• Section 137 expenditure	N/A
4. Risk Management Processes	• Risk Assessment	Yes
5. Budget setting and monitoring	• Budget Setting	Yes
	• Precept notification	Yes
	• Budget Monitoring	Yes
6. Income received and VAT	• Receipt of Precept	Yes
	• Receipt of income	Yes
	• VAT on income	Yes
	• Banking of income	Yes
7. Petty Cash Payments	• Petty Cash payments	N/A
	• VAT on cash payments	N/A

Area	Control	Control Satisfactory
8. Payroll records including Income Tax, National Insurance and Pensions	• Pay policy/process	Yes
	• Annual salary increases	Yes
	• Individuals salary increase	Yes
	• Members/Mayors Allowances	N/A
	• Salary deductions paid to external bodies (Tax and Pension)	Yes
9. Completeness of Asset and Investment Registers	• Asset Registers	Yes
	• Investments	N/A
10. Bank Reconciliations	• Bank Reconciliations	Yes
11. Trusteeships	• Trusteeship Accounts	N/A

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.