Do Asset Register

Colney Heath Parish Council

Internal Audit Report 2004-05

Stuart J Pollard
Director

RBS Auditing Solutions Ltd

Background and Scope

The revised Accounts and Audit Arrangements implemented with effect from the financial year commencing 1 April 2001, required all Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually.

Whilst this is only our second year as the Council's internal auditor encompassing the financial transactions for 2004-05, our first year's work covered two years, namely 2002-03 and 2003-04 and was completed early in 2005.

Internal Audit Approach

In undertaking our review, we have and will continue to have regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts. Due to the lateness of completion of work on the 2002-03 and 2003-04 Accounts, arising primarily as a result of staff changes at the Council, most of the issues identified in relation to the two previous years still apply to 2004-05 and are therefore still relevant to and are reiterated again in this year's report.

Consequently, it has again been necessary to apply substantive testing in most areas relating to 2004-05 transactions. Work has been tailored to provide the requisite degree of assurance to enable us to complete the internal audit certificate in the Council's Annual Return for 2004-05. Those issues identified are then summarised in an Action Plan at the end of the report for consideration and action by the Clerk and members of the Council.

The report is, as last year, also available for presentation to the Council's external auditors, who may also have access to our working paper file on request.

Overall Conclusion

Overall, there are clear indications of improvements in working practices and financial control systems: however, we consider that the clerk and his assistant need to pay greater attention to the accounting systems and would undoubtedly benefit from the implementation of a bespoke accounting system, which will help eradicate the number of typographical errors that we have again identified on the spreadsheet cashbooks and resulted in an excessive amount of our time to ensure that the final year-end data is correct for inclusion in the Statement of Accounts and Annual Return.

Work also remains to be done on the Council's regulatory framework to update it and bring it into line with the latest legislation and procedural changes introduced by the new clerk and assistant, also providing clear lines of demarcation between the Council's financial affairs and those of the Treasure Tots pre-school group.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The clerk has prepared the Council's cashbooks using Excel Workbooks for the financial year, a separate spreadsheet being prepared for each month and separately for receipts and payments providing automatic update of month-end balances rolled over into the next month's worksheet.

This workbook facility was designed by ourselves in conjunction with the clerk to assist him in preparing the accounting records and to provide a suitable medium for identification of balances throughout the year and a simple facility for reconciliation of cashbook balances to the bank statements. The system also provides a ready means of identifying receipts and payments to date in the year for comparison with approved budgets for the financial year.

In testing the first month's entries (April '04) to bank statements, we identified a number of typographical errors where the value of cheques drawn was incorrectly recorded in the bank column and/or the analysis into the various expense (and to a lesser degree income) columns was also incorrectly entered. This has resulted, in the first case, in effectively making completion of meaningful bank reconciliations impossible and, in the second, in the under or overstatement of receipts and payments in the analysis columns.

Due to the level of error identified in the first month's testing, we have, of necessity, had to undertake a 100% check on the detail of cashbook entries for the full year to both bank statements and supporting payments and, where available, receipt documentation. This has, for the second year running led to increased internal audit time over and above that which we would anticipate having to spend and reduced the time available for examination and testing of other financial systems.

No attempt has been made to reconcile the cashbook balances at the end of each month during the year to bank statements with the consequence that the number of entry errors identified during the year have passed undetected and have not been corrected. It is an essential control mechanism for bank reconciliations to be completed at regular intervals throughout the year to ensure that cashbook transactions have been correctly recorded and that no cheques remain uncleared for an undue length of time. We noted that two cheques drawn in October and one in November (nos. 3370,71 & 91) relating to superannuation contributions remained uncleared as at 31st March 2005: these will require "write-back in the April and May cashbooks as negative payments.

Given the number of transactions annually, we consider that the Council needs to give serious consideration to the acquisition and implementation of a bespoke accounting package such as "Omega/Financial Director" or "Sage". Based on our experience of the various accounting systems available when working previously for the Audit Commission and subsequently as internal auditor to a number of councils with varying requirements, we would suggest that the former would provide the Council with the best overall financial and management accounting and reporting system to meet its requirements, especially given the way that expenditure has increased in 2004-05 over previous levels, with heavy reliance placed on the Council's reserve funds to cover the cost of spending in the year.

We queried in last year's report to the need to retain the number of bank accounts in operation at the Council, highlighting the benefits that would be obtained by way of increased interest income were the banking arrangements rationalised and surplus funds invested in "treasury term deposits", which with available balances in excess of £100,000 a return of 4% plus may well be achievable. We understand that appropriate action has now been taken in 2005-06 to "invest" surplus funds accordingly.

We also note that Council's desire to retain the bank accounts until the Council's banking requirements have been formally assessed.

We note that the clerk had recorded detail of cheques drawn in April 2005 in the March cashbook on the basis that they related to 2004-05 expenditure. All receipts and payments should be entered into the cashbook in the year that money is physically received or cheques drawn, irrespective of the income or expenditure period to which they relate.

Recommendations

R1. Care should be taken to ensure that accounting transactions are accurately recorded in the cashbook and that the correct detail is recorded in the analysis columns. The preparation of regular month-end bank reconciliations should assist in ensuring the accuracy of detail recorded during the course of the year, rather than require major corrective work at the year-end.

R2. We note that the clerk is considering the implementation of accounting package and would support the ideal wholeheartedly as it should further assist in the eradication of the type of errors identified again this year.

R3. All cheques uncleared six months after their date of issue should be written back in the cashbooks as negative payments, the appropriate negative entry being recorded in the analysis column.

R4. Further consideration should be given to the rationalisation of the Council's bank accounts, as there appears to only be a need for a current and high interest earning account.

Review of Regulatory Framework

We noted last year that the Council's Standing Orders had not been reviewed or revised recently. There has been a wealth of legislative changes in the last couple of years including, inter alia, the revised Members Code of Conduct, Freedom of Information Act and revisions to the Accounts and Audit Arrangements in recent years. NALC has produced a model format for Standing Orders and we would commended the document as a suitable baseline for the Council to review and update its extant documentation.

Similarly, good accounting practice suggests that all bodies, including councils, should develop and adopt a formalised approach to management of their financial affairs. As with the Standing Orders, NALC has developed a model set of Financial Regulations for councils and we would suggest that these are used by the Council as the basis for development of their own financial regulatory framework.

We note the intention to complete a review of these documents and present them to Council for formal adoption and would urge that the work is completed as soon as is practicable.

We have continued our examination of the Council's minutes for 2004-05 to ensure that no issues exist or are developing that may have an adverse affect on the Council's financial stability either currently or in the foreseeable future. We are pleased to record that no significant issues appear to exist at present, although we note that the Council has not formally considered the relevant powers applying for approval of each grant and donation payment made. The S.137 "free resource" can only be applied when the Council has no specific powers to provide assistance to groups or local bodies and should only then be used for the benefit of the local population. Furthermore, we would suggest that the Council should formally identify the level of the available "free resource" annually, based on he electoral numbers for the parish as at 1st April * £5.14 (£5.31 with effect from 1st April 2005).

Recommendations

R5. The Council should complete the re-examination of its extant regulatory framework and update it in line with the model Standing Orders and Financial Regulations as soon as is practicable.

R6. When considering applications for payment of grant aid and donations, the Council should satisfy itself that the relevant powers exist, those powers being formally identified in the minutes for each approval granted.

R7. The annual limit of Section 137 payment should be identified formally at the start of each financial year.

Review of Payments

We have reviewed all payments made in 2004-05 to ensure that the following criteria were met: -

- Payments were supported by a trade invoice or acknowledgement of receipt. ***As in previous years, a number of payments were not supported by trade invoices, although we are pleased to note that the clerk has introduced a system of certified proformas where no appropriate invoice is available or applicable.***
- VAT has been calculated correctly and is recovered at appropriate intervals. ***A number of errors were identified in the value of VAT identified on the cashbook prepared by the clerk and no reclaim had been made to the date of our audit review on October in respect of 2004-05. Given the annual level of***

vatable expenditure, we consider that claims should be submitted routinely at the end of each quarter in order to ensure early recovery of sums due to the Council and maximise investment potential of available resources.

- The Council at a Council meeting approved each payment. ***All payments appear to be reported to the Council for approval.***
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts. ***We have checked and, where appropriate, adjusted the analysis of payments between the various headings reported in the Statement of Accounts to ensure consistency throughout the year.***
- Purchases have been correctly analysed as capital or revenue acquisitions in the year. ***As above.***
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit. ***A separate column has been used to identify Section 137 grants and donations, etc. Detail has been agreed.***

Recommendation

R8. VAT should be reclaimed from HM Customs and Revenue at regular quarterly interval throughout the year in order to maximise the Council's interest earning potential.

Assessment and Management of Risk

The minutes continue to make regular references to the completion of risk assessments at the Council's various sites. We also noted last year the production of a risk assessment by the Council in early 2003, which provides a suitable initial basis on which the Council can further develop its approach to risk assessment and management.

We understand that the clerk intends to acquire the DMH Solutions Ltd software (Local Council Risk System – LCRS) referred to in last year's report and to implement it as soon as time permits. We shall monitor progress on the development of the relevant assessments at future visits.

Zurich Municipal Insurers provide the Council with insurance cover: examination of the policy documents and schedule indicates that an appropriate level of cover generally exists for the Council's needs with Fidelity Guarantee cover set at £100,000, which we consider appropriate given the Council's average cash/bank balance during 2004-05. We note the intention to keep the level of cover under annual review.

With the development of the Treasure Tots playgroup and regular usage of the village hall, we consider that the Council needs to consider increasing its insurance cover in respect of "loss of revenue" resulting from Business Interruption (Section B of the insurance policy), as no provision is made in this respect at present. The Council should be mindful of the need to continue paying wages to carers in the, albeit unlikely, event that the hall should be unavailable and also the loss of revenue that would result from its unavailability.

Recommendations

R9. The Council should ensure that a comprehensive risk assessment, encompassing both financial and health/safety areas, is undertaken on a regular basis and commend the use of the LCRS package to members.

R10. The Council should ensure that adequate insurance cover exists to provide for the loss of revenue and need to meet pay costs of playgroup helpers in the event that the village hall became unavailable.

Budgetary Control and Reserves

The Council's minutes (13th January 2005) confirm that the budget and precept for 2005-06 has been formally discussed and agreed by the Council, following consideration of a detailed assessment of the Council's spending requirements for the forthcoming year, a precept level of £121,645 being agreed.

Examination of the minutes indicates that members have been presented with periodic budget reports, as suggested in last year's report. We note that the clerk is still working on the format to be applied and anticipate that, whichever bespoke accounting package is acquired, suitable information will be readily available once it has been implemented.

The year-end General Fund balance of £60,000 equates to almost six month's net revenue spending and, as such, is considered adequate to meet the Council's routine spending requirements, especially given the availability of additional funds in the two retained earmarked reserves.

No issues apply, although the clerk has expressed some concerns at the level of spending in the current financial year. We shall examine the financial position at our interim audit review for 2005-06 in the new financial year.

Review of Income

The Council receives income from a variety of sources annually. Due to the continuing difficulties experienced with the accuracy of accounting records, we have not had an opportunity to examine the detailed systems of control over the various income sources. This will be addressed as a priority in 2005-06 at our interim visit.

We have however updated our analytical analysis of the various income sources, noting that the football club pavilion income has reduced considerably between the two years (£5,898 – 2003-04 to £4,559 in 2004-05): this requires explanation.

A major additional source of income has arisen during the year in the form of the Treasure Tots playgroup, management responsibility for which the Council has assumed following the resignation of the group's former leader. We note the intention to obtain charitable status for the group and will continue to monitor the position at future visits. We have, additionally been asked to examine, as a separate exercise the controls in place over the accounting for the Treasure Tots group and will report our conclusion sin a separate report in due course.

No issues arise in this area at present, although we seek an explanation for the reduction in pavilion income.

Petty Cash Account

We noted last year that a petty cash account was in operation, expressing concern at the absence of formal records detailing the nature of spending. Monthly cash advances of £100 continued to be drawn from the current bank account throughout 2004-05 to provide funding for all ad hoc expenditure.

We stressed the need for a formal record to be maintained and are pleased to note the improvements that have been made to recording and control over petty cash expenditure in 2005-06: the assistant clerk is managing the petty cash account using a spreadsheet to record detail of expenses incurred. We note from a brief examination of the spreadsheet in use that no provision has been made to identify VAT on expenses incurred: whilst acknowledging that the amounts involved are likely to be very small, all VAT expended on Council business should be identified, wherever practicable and detail be included on the reclaims submitted to HM Customs and Revenue.

We also understand that an individual transaction limit of £20 has been agreed for petty cash payments, unless the Clerk approves a higher level of individual spend.

Whilst the system in 2004-05 remained unsatisfactory and will attract a negative comment on the Annual return, it will be qualified by a note to the effect that remedial action has now been taken. We shall review the revised controls in 2005-06.

Recommendation

R11. Care should be taken to ensure that all VAT on petty cash expenses is identified and included in the reclaims submitted to HM Customs and Revenue.

Salaries and Wages

Due to the previously identified difficulties with the cashbook errors, we have not had a chance to examine the payroll documentation in any great detail. However, we are pleased to note that the clerk has now implemented the Sage payroll software, which should help alleviate some of the problems that he had identified in previous years.

Notwithstanding the shortage of time, we have managed to examine some of the manual records maintained for 2004-05 and have identified a few anomalies in the amounts of tax deducted from certain employees. For example, the tax deducted from Mrs H Brazier in the first two months of the financial year has been correctly calculated at 22%, assuming that tax is deductible at basic rate. The basis of deduction in subsequent months appears mixed, varying between 19.4% and 25%. The total salary earned for the year was £2,952.24, which, at basic rate would attract a deduction of £649.44, compared with the actual tax deduction of £647.36. Mr N Quinn earned a total of £690 in the year, which would attract a tax deduction of £151.80 at basic rate: however, only £137.40 appears to have been deducted on the basis of the personal salary record maintained.

Recommendation

R12. Whilst the apparent errors on tax deductions on the two employees highlighted in the report are not significant, we would suggest that the clerk needs to revisit this area and ensure that the correct tax deductions have been made for all employees and that the correct amount shave been paid over to Inland Revenue.

Asset Registers

We are pleased to note that, following our recommendation last year, a form of asset register has been prepared identifying a number of individual assets and assigning values to those. We note that some assets have been shown with a "written down value" following depreciation. Council's the size of Colney Health are not required to account for depreciation and we therefore see little purpose in continuing the practice.

Comparison of the detail on the asset register with that on the insurance schedule also highlights further apparent anomalies, as the latter only identifies the following specific assets at the values shown (the asset register values are shown in brackets. where known: -

Buildings		
Colney Heath FC pavilion	£307,228	(£285,582)
Old Air Raid Shelter	£30,858	(£28,692)
All Risks		
Parish Office contents	£3,501	(£4,236 ??)
Old Air Raid Shelter contents	£2,293	(??)
13 Bus shelters	£60,271	(£54,296) 11 nos.
Other miscellaneous assets	Nil	(£45,655)
Total value	**£404,151**	**(£418,461)**

The obvious disparity between the asset register and insured values of the Council's assets raises questions as to the adequacy of insurance cover and protection afforded to the Council. Given these circumstances, we consider that the Council should ensure that the asset register now in existence is verified for accuracy and completeness and submitted to Council for consideration as to whether or not the detail should be included on the insurance schedule or be covered by "self-insurance by the Council.

As indicated in last year's report, the asset register should serve as a record of **all** land, premises, property and equipment owned by the Council. Ideally, it should also identify the following basic information and would best be recorded on a spreadsheet, so that the annual movement in values as recorded on the insurance schedule may be revised accordingly on the register:

- Date of acquisition
- Detail of item
- Position where item is stored or fixed
- Serial number
- Purchase cost
- Current year insurance value (if insured)
- Disposal date

By inclusion of this detail in the register for all assets owned, including land, buildings, plant, machinery, furniture and equipment, the Council has a permanent record, which serves as a sound source for provision of information to the insurance company and/or police in the event of any need to make an insurance claim. It also provides the Council and us with an easy source for verifying the accuracy and completeness of the insurance schedule detail and of the information to be disclosed in Section 1 of the Annual Return.

We would also suggest that, in order to assist in the pursuance of any insurance claim that may arise, a photograph (ideally in digital format) of all the assets owned should be taken and held to support any claims that may be necessary.

Recommendations

*R13. As indicated in last year's report, the Council should comply with the terms of the 1996 Accounts and Audit Regulations and ensure that a formal register identifying **all** fixed assets is established and maintained: the register should provide full detail (where available) as outlined in the body of the report.*

R14. The Asset Register should be reviewed and updated annually to include detail of new assets acquired and also of those disposed.

R15. The Council should determine a de minimus value for identification of those assets regarded as "Fixed" and those below that value, which are to be regarded as inventory items (the normal cut-off value is between £500 and £1,000).

R16. As the Council is not required to apply capital charges in its accounting, asset values disclosed annually in the Annual Return should be based on the insured cost of assets, plus the assessed current replacement value of any assets subject to "self-insurance" and therefore excluded from the insurance schedule.

Investments and Loans

The Council held surplus funds in Business and Capital Reserve accounts with its bankers throughout 2004-05. Following our recommendation last year, we are pleased to note that these surplus funds have now (in 2005-06) been deposited in treasury term-deposit accounts attracting a more preferential rate of interest.

The Council has no loans repayable either by or to itself.

No issues arise in relation to investments or loans, on the basis that action has now been taken to invest surplus funds in more appropriate accounts attracting a higher rate of interest return.

Statement of Accounts and Annual Return

We have, as last year, provided a high level of support to the clerk in clarifying the detail of transactions during 2004-05 in order to produce a meaningful and accurate Statement of Accounts for the year, which we have again produced for the clerk on the basis of the amended cashbook detail.

Consequently, no issues have arisen from our work on the Statement that have not been referred to previously. We have also assisted the clerk in identifying the appropriate detail for entry onto the Annual Return for 2004-05.

We have not prepared detailed Supporting Notes to the Accounts as indicated as ideal in the 1996 Accounts and Audit Regulations and CIPFA guidance. However, we have provided the Clerk with a simplified format that meets the requirements of the 1996 Regulations and would suggest that the appropriate detail be produced as an appendix to the 2004-05 Accounts.

No specific issues arise on the Statement of Accounts and Annual Return not mentioned earlier in this report, apart from the suggested preparation of a supplementary Supporting Statement.

Action Plan

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	Care should be taken to ensure that accounting transactions are accurately recorded in the cashbook and that the correct detail is recorded in the analysis columns. The preparation of regular month-end bank reconciliations should assist in ensuring the accuracy of detail recorded during the course of the year, rather than require major corrective work at the year-end.	
R2	We note that the clerk is considering the implementation of accounting package and would support the ideal wholeheartedly as it should further assist in the eradication of the type of errors identified again this year.	
R3	All cheques uncleared six months after their date of issue should be written back in the cashbooks as negative payments, the appropriate negative entry being recorded in the analysis column.	
R4	Further consideration should be given to the rationalisation of the Council's bank accounts, as there appears to only be a need for a current and high interest earning account.	
Review of Regulatory Framework		
R5	The Council should complete the re-examination of its extant regulatory framework and update it in line with the model Standing Orders and Financial Regulations as soon as is practicable.	
R6	When considering applications for payment of grant aid and donations, the Council should satisfy itself that the relevant powers exist, those powers being formally identified in the minutes for each approval granted.	
R7	The annual limit of Section 137 payment should be identified formally at the start of each financial year.	
Review of Payments		
R8	VAT should be reclaimed from HM Customs and Revenue at regular quarterly interval throughout the year in order to maximise the Council's interest earning potential.	

Rec. No.	Recommendation	Response
Assessment and Management of Risk		
R9	The Council should ensure that a comprehensive risk assessment, encompassing both financial and health/safety areas, is undertaken on a regular basis and commend the use of the LCRS package to members.	
R10	The Council should ensure that adequate insurance cover exists to provide for the loss of revenue and need to meet pay costs of playgroup helpers in the event that the village hall became unavailable.	
Petty Cash Account		
R11	Care should be taken to ensure that all VAT on petty cash expenses is identified and included in the reclaims submitted to HM Customs and Revenue.	
Salaries and Wages		
R12	Whilst the apparent errors on tax deductions on the two employees highlighted in the report are not significant, we would suggest that the clerk needs to revisit this area and ensure that the correct tax deductions have been made for all employees and that the correct amount shave been paid over to Inland Revenue.	
Asset Registers		
R13	As indicated in last year's report, the Council should comply with the terms of the 1996 Accounts and Audit Regulations and ensure that a formal register identifying **all** fixed assets is established and maintained: the register should provide full detail (where available) as outlined in the body of the report.	
R14	The Asset Register should be reviewed and updated annually to include detail of new assets acquired and also of those disposed.	
R15	The Council should determine a de minimus value for identification of those assets regarded as "Fixed" and those below that value, which are to be regarded as inventory items (the normal cut-off value is between £500 and £1,000).	

Rec. No.	Recommendation	Response
Asset Registers (Continued)		
R16	As the Council is not required to apply capital charges in its accounting, asset values disclosed annually in the Annual Return should be based on the insured cost of assets, plus the assessed current replacement value of any assets subject to "self-insurance" and therefore excluded from the insurance schedule.	