Colney Heath Parish Council

Internal Audit Report (Final) 2006-07

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Background and Scope

The Accounts and Audit Arrangements, introduced with effect from the financial year commencing 1 April 2001, required all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council has complied with the requirements in terms of independence from the Council decision making process appointing Auditing Solutions Ltd to provide an internal audit function to the Council: this report sets out those areas examined during the course of the recently completed final audit visit for 2006-07.

Internal Audit Approach

In undertaking our review for 2006-07, we have, as usual, had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts.

In order to reduce the volume of content in our reports this year and improve readability, we have decided that, unless there are any serious or significant issues arising, our reports will provide detail of the financial systems examined with a brief account of the work undertaken in bullet point format. Any issues identified in the course of that work are set out in the body of the report with a summary of recommendations in an Action Plan at its end.

Overall Conclusion

Overall, we are satisfied that the control systems now in place help ensure that all income due to the Council is both identified and recovered and that appropriate controls are In place to ensure that payments in respect of traders and staff are accurately effected. However, we are concerned to note that, apart from ongoing health and safety checks of playground equipment and the like, no formal assessment of the potential risks to which the Council may be exposed has been undertaken, also that the formal asset register has still to be updated to reflect recent additions and disposals.

Additionally, whilst there has been a marked improvement in the quality of documentation available for our inspection this year, we have still identified a number of errors in the entries made in the cashbooks, leading to difficulties in balancing the year-end Statement of Accounts.

Accounts and Accounting Arrangements & Bank Reconciliations

We have carried out the following checks and work in this area:

- Agreed the opening balance detail on each bank account as recorded on the cashbook to that as reported in the Statement of Accounts for 2005-06;
- Checked and amended, as necessary, all transactions (both receipts and payments) as recorded in the cashbook for all bank accounts to the relevant bank statements for the full financial year;
- Prepared a detailed bank reconciliation for each month-end to date in the current financial year including the year-end (i.e. 31st March 2007).

We noted at our interim visit that the opening balances recorded in the cashbook as at 1st April 2006, were not the correct balances as reported in the Statement of Accounts for 2005-06: these have been corrected to facilitate the identification of accurate month-end balances for carry forward into subsequent months throughout the financial year.

Whilst there is indication of a positive improvement in the accuracy of detail recorded in the cashbooks, we have still identified a number of errors that required amendment in order to ensure the accurate analysis of receipts and payments into the correct columns in the cashbook. We have also identified errors in the detail recorded on the analysis columns, where it does not correlate to that in the cash and bank account columns, also where the latter detail does not correspond with the bank statement values.

When checking bank statements against the cashbook, it is essential to ensure that the values of deposits and cheques drawn are recorded in the cashbook accurately and in line with the bank account transaction detail. Where differences are identified, they should be investigated and amended accordingly.

We note that, despite our previous recommendation, there has been no attempt to rationalise bank accounts in order to increase the level of balance in one or two accounts and thereby maximise interest earning potential.

Recommendations

R1. *The Clerk should ensure that the opening balances for the financial year are those reported in the annual Accounts for the previous year in order to provide a sound basis for completion of regular month-end bank reconciliations.*

R2. *The Clerk should ensure that the values reported in the cash and bank account columns on the cashbook correspond with the detail on the bank statements, any variances being investigated and detail on the cashbook brought into line with that on the bank statements.*

R3. *As indicated in previous reports, the Council stands to earn a higher rate of interest by pooling resources into a reduced number of bank accounts.*

Regulatory Framework

- We have made previous reference to the need to review and update both Standing Orders and Financial Regulations. Whilst aware that the Clerk was working on the revisions to these documents at the close of 2005-06, we have seen no indication within the Council's minutes that the review has been finalised and the documents been presented to Council for formal approval and adoption.
- We have also continued our review of minutes, examining the content of those up to and including the meeting held on 1st February 2007 to ensure that no legal issues exist: also ensuring that no issues are under consideration that may result in unlawful decisions and actions being taken by the Council.

The minutes afford no indication that members have considered the relevant powers being relied on for the approval of grant and donation payments made during the course of the year: they should be aware that Section 137 (the "Free Resource") powers should only be relied on where no other specific powers are in existence. We have provided the Clerk with detail of the relevant powers in existence for the Council to approve various ad hoc items of expenditure.

We are concerned to note the ongoing difficulties in negotiations with the football club over their lease, the recovery of agreed rental fees and also the apparent condition in which the building and environs were being maintained, the latter generating serious concerns with regard to health and safety issues. We consider that the Council needs to now take a strong stand with the Club to ensure that negotiations regarding the agreement of a realistic market rental for the site are brought to a satisfactory conclusion and that the Council and local electorate are not left to finance what is, in effect, virtually a private members club form the precept.

Recommendation

R4. Work on updating the Standing Orders and Financial Regulations should be finalised as soon as is practicable, the resultant documents being presented to full Council for approval and formal adoption.

R5. The Council should ensure that negotiations over the football club lease are brought to a swift and satisfactory conclusion and that the local electorate is not expected to finance what is effectively a private members club. The Council should also ensure that the lease clearly identifies responsibility for health & safety issues surrounding the clubhouse and its environs in order to shift liability away from itself.

R6. When considering whether or not to approve the provision of grants and donations to local bodies, members should consider the relevant powers being relied on for each such payment approved: the approval of all such payments should be separately minuted, together with the powers being relied on in each case.

Review of Expenditure

In order to ensure the accuracy of analysis of payments in the cashbook, we have checked detail of each and every payment recorded in the cashbook to the underlying record for the financial year to ensure that:

- An appropriate invoice supported each payment;
- All payments were appropriately approved for release by the Council;
- Expenditure was analysed appropriately in the cashbook; and
- That all recoverable VAT had been identified and recorded appropriately in the cashbook to facilitate production of the annual VAT reclaim to be submitted to HMRC.

We noted that a few payments were not supported by either a trade invoice or other appropriate form of documentary evidence, namely payments on cheque numbers 3817, 3944, 3948, 4013, 4021 and direct debits in respect of Herts & Middlesex Wild Life, the Open Spaces Society and Powergen in February 2007, together with imprest account cheque number 1413. We also noted that no formal acknowledgements of receipt were held on file for a few grants paid during the year and, whilst accepting that grants to Treasure Tots are primarily administered by the Council Clerk and his Assistant, would suggest that all such grants are acknowledged by signed receipt.

Additionally, there were a number of payments during the year where VAT had not been identified in the cashbook analysis.

We also noted that the analysis of tax and NI costs between the Council's admin and outside work force and also with the grant payment to Treasure Tots in respect of tax and NI costs, does not always appear to be in line with the actual costs of staff employed in each area and would suggest that a more accurate analysis of these costs be identified in future in the cashbook.

Recommendations

R7. All payments should be supported by a trade invoice or, where no invoice is available, by an acknowledgement of receipt (in the case of grants and donations).

R8. When entering payments in the cashbook, care should be taken to ensure that all vatable items are identified and recorded as such.

R9. In order to further improve the Council's cash flow and interest earning potential, VAT reclaims should be submitted at quarterly intervals, rather than following production of the annual Statement of Accounts.

R10. The cost of NI and tax payments should be analysed in accordance with the areas where staff actually work, rather than the apparently arbitrary analysis applied currently in most months.

Assessment and Management of Risk

- We have discussed the development of risk assessments with the Clerk, suggesting that the LCRS software should be acquired in order to assist the process and provide the Clerk and Council with a sound basis on which to undertake and formally document the results of assessments. We have seen no indication in the minutes of any positive progress in this area and would remind the Council of the need to ensure that it is adequately protected against possible litigation arising from any incident on Council premises or other form of claim. This is even more relative in relation to the football club and environs as discussed earlier in this report.

- We have also examined the Council's insurance policy schedule, currently with Zurich Municipal and consider that cover is, as far as we are able to discern, appropriate for the Council's needs in all areas, with the possible exception of any potential damage that might occur to the football pavilion. We note that the building is insured, but no cover is in place currently for loss of revenue through any significant damage that might occur to the pavilion preventing use of the facilities.

Recommendations

R11. The Clerk and Council should ensure that all potential areas of risk are assessed as a matter of some urgency, also ensuring that the results are formally documented and reported to full Council, who share corporate responsibility for ensuring their effective completion.

R12. Consideration should be given to the acquisition of additional insurance cover against potential loss of revenue through the football pavilion being unavailable for use.

Budgetary Control & Reserves

- We note that the Council has completed its budget deliberations for 2007-08 approving a precept of £135,250 for the year.
- Whilst the Clerk provides detail of monthly expenditure to members, we have seen no indication of any formal comparison of actual spending during the course of the financial year against the budget approved for the year, except as part of the annual budget deliberations. The spreadsheet cashbooks are designed in such a way that a straightforward comparison of actual receipts and payments against the approved budget can be made directly. We would suggest that the annual agreed budget detail be entered onto the cashbook in order to provide the relevant detail for presentation to members periodically during the course of the financial year.
- We have also reviewed the level of general and earmarked reserves held by the Council and consider them appropriate for the ongoing requirements of the Council, the former (£75,600) equating to almost six-months' net revenue spending.

No issues arise in this area of our review warranting formal comment or recommendation, although we would again urge that a system of periodic reporting of actual receipts and payments against budget is introduced.

Review of Income

We have examined detail of receipts recorded on the cashbooks for any obvious anomalies, also checking detail to supporting bank paying-in-slips and are pleased to report that no issues arise in that area.

The Council provides only limited chargeable services by way of the sale of advertising space in the parish magazine, hire fees for tennis courts and monthly rental and insurance contributions from Coney Heath FC for use of the sports field and pavilion. We have not had an opportunity to examine the income streams in any great detail this year, but note that no tennis court fee income was received and understand that the Council has determined to waive charges in this area. We also note that wayleave income reduced to £150 in 2006-07 compared with £1,600 in the previous year and will pursue the apparent reduction at our next visit.

We have already referred to the ongoing concerns over the rent payments by the football club, stressing the need to resolve negotiations on the new lease and fees payable.

We also noted the receipt of £238.84 from the Church Council in respect of interest received in relation to the closed churchyard. The Council has not received such funds previously and the Clerk is currently uncertain as to the nature of the income, although the Church Council's covering letter makes reference to specific names and amounts during the year.

We shall examine the controls over identification and recovery of advertising space in the Parish Magazine at next interim audit visit.

Recommendations

R13. Any and all outstanding fee income from the Football Club should be actively pursued.

R14. The nature of the income received from the Church Council should be investigated and reasons established to explain why similar income has not been received in the preceding years.

Petty Cash Account

A form of petty cash account is in operation, although, as previously, no formal records detailing the nature of spending appear to have been maintained during 2006-07 effectively preventing our checking and verification of account detail. Occasional transfers have been made during the course of the year to "top-up" the fund, although the clerk has advised that he and his assistant are probably owed in excess of £1,000 which they have paid out from their own money initially.

We consider it essential that a formal record is maintained throughout the course of the financial year identifying the nature of all petty cash expenditure incurred and that till receipts, trade invoices, etc. are retained for audit inspection. We understand that the Clerk is currently working on the documentation and that it should be ready for our examination at our next interim visit. Given the apparent relatively high level of annual spending, appropriate records must be maintained throughout the year and checks of the physical cash holding be made by an independent councillor periodically during the year to ensure that the records are both being kept up-to-date and balance.

In order to simplify the process and improve accountability, we reiterate our recommendation from last year that the petty cash account should be operated on an imprest system with a fixed balance of say £100 or £150. As and when required, the actual expenditure incurred should be reimbursed by cheque drawn on the current bank account. This would simplify the process of analysing the expenditure incurred in line with the main cashbook analysis and provide a more robust system of control, also avoiding the need for the clerk to subsidise any expenditure incurred from his or the assistant's own pocket.

Recommendations

R15. *A formal record identifying the nature of expenditure from petty cash should be maintained, also detailing the cash advances received from the bank account.*

R16. *Appropriate documentation should be obtained and retained to support all expenditure from the petty cash account.*

R17. *In order to simplify accounting and ensure that petty cash expenditure is correctly analysed to the appropriate budget heading, the account should be operated on an imprest basis, which is then topped up to the agreed level by cheque equating to the exact amount expended in the period.*

Salaries and Wages

We reviewed detail of staff pay at our interim audit, as detailed below, by reference to the March 2007 payroll documentation produced on SAGE software, detail being checked subsequent to our departure from the Council's offices:

- To ensure that the Council has approved staff pay rates for the financial year and that these have been duly and accurately applied;
- Checked detail of tax codes to ensure that the correct coding is being applied (NB: Code 503 is the basic code applicable for 2006-07);
- Verified the accurate deduction of tax in March 2007 on both the monthly and weekly payrolls;
- Checked the NI contributions, both employee' and employer's elements as applied to the March 2007 payrolls examined;
- Verified that the correct rate of pension contributions has been applied to the one member of staff contributing to the Hertfordshire County pension fund;
- Checked detail of overtime payments to supporting timesheets; and
- Ensured that staff have received the appropriate net pay salary payment for the monthly and weekly payroll examined.

Due to time constraints, we have not been able to verify the accuracy of the pay rates applied to all staff in March 2007 and will undertake more specific work in this area at our next interim visit.

We were unable to verify the basis of the pension deduction from Mr Nash's March salary (£8.60), which appeared to be approximately 5.85% of his gross pay, instead of the standard amount of 6%: we seek clarification of the basis of the deductions being made.

We also note that his payslip identified the total taxable amount for the month as being the basic gross. Whilst his earnings are below the tax threshold, the Clerk should be aware and make the necessary changes to the SAGE pay parameters for this employee, to ensure that, in the event that he exceeds the tax threshold in any year, his gross pay is abated by the pension contribution payable, as this is a non-taxable amount.

Recommendations

R18. The SAGE software NI deduction parameters for Mr Nash should be reset to ensure that his pension contributions are deducted from his gross pay prior to tax.

Asset Registers

We have previously drawn attention to the absence of a formal asset register despite the existence of a wide range of assets owned by the Council. The 1996 Accounts and Audit Regulations required all councils to establish and maintain a formal asset register. Whilst we note that some progress has been made, we would urge that positive and prompt action be taken to complete production of an appropriate register.

Such a 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.

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.

Recommendation

*R19. 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.*

R20. The Asset Register should be reviewed and updated annually to include detail of new assets acquired and also of those disposed.

R21. Consideration should be given to the development of a photographic record of the Council's asset base in order to assist the smooth progressing of any insurance claim that might arise or any possible police investigation in the event of theft and/or wilful damage.

Investments and Loans

We have checked and agreed detail of the Treasury Deposit transactions for the current financial year to the bank advice/contract notes, also verifying that interest due has been reinvested on the due dates.

No loans are in existence at present and, consequently, no work is necessary in that area.

No issues arise in this area f our review.

Statement of Accounts and Annual Return

We have again provided the clerk with a high level of support in clarifying the detail of transactions during 2006-07 in order to produce a meaningful and accurate set of Accounting Statements for the financial year.

Consequently, no issues have arisen from our work on the Statements 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 2006-07, in which we have duly completed and signed off the internal audit certificate.

No additional issues arise in relation to the Statement of Accounts for 2006-07 or detail to be incorporated into the Annual Return other than in respect of those matters referred to elsewhere in this report.

Action Plan

Rec. No.	Recommendation	Response
Review of Payments		
R1	The Clerk should ensure that the opening balances for the financial year are those reported in the annual Accounts for the previous year in order to provide a sound basis for completion of regular month-end bank reconciliations.	
R2	The Clerk should ensure that the values reported in the cash and bank account columns on the cashbook correspond with the detail on the bank statements, any variances being investigated and detail on the cashbook brought into line with that on the bank statements.	
R3	As indicated in previous reports, the Council stands to earn a higher rate of interest by pooling resources into a reduced number of bank accounts.	
Regulatory Framework		
R4	Work on updating the Standing Orders and Financial Regulations should be finalised as soon as is practicable, the resultant documents being presented to full Council for approval and formal adoption.	
R5	The Council should ensure that negotiations over the football club lease are brought to a swift and satisfactory conclusion and that the local electorate is not expected to finance what is effectively a private members club. The Council should also ensure that the lease clearly identifies responsibility for health & safety issues surrounding the clubhouse and its environs in order to shift liability away from itself.	
R6	When considering whether or not to approve the provision of grants and donations to local bodies, members should consider the relevant powers being relied on for each such payment approved: the approval of all such payments should be separately minuted, together with the powers being relied on in each case.	
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R10	The cost of NI and tax payments should be analysed in accordance with the areas where staff actually work, rather than the apparently arbitrary analysis applied currently in most months.	
Assessment and Management of Risk		
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Asset Register		
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