Colney Heath Parish Council

Internal Audit Report (Interim update) 2008-09

Stuart J Pollard

Director
Auditing Solutions Ltd

Background and Scope

The Accounts and Audit Arrangements introduced from 1st April 2001 require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council 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 our two interim audit visits for 2008-09.

Internal Audit Approach

In undertaking our interim reviews, we have continued to have regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts. Due to the previously identified level of errors of detail in the accounting entries in the Council's spreadsheet cashbooks in previous years, we have again undertaken a 100% check of entries in the cashbooks to date in the financial year.

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 remain concerned that, apart from ongoing health and safety checks of playground equipment and the like, no formal assessment of the potential financial 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.

Similarly, whilst there is a continuing improvement in the quality of documentation available for our inspection this year, we have still identified errors in the detailed entries made in the cashbooks, which, if left uncorrected would again make balancing the year-end Statement of Accounts a difficult exercise. Consequently, we have again and in conjunction with the clerk, ensured that the appropriate amendments have been made to the cashbooks following our examination of their detailed content.

Accounts and Accounting Arrangements & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have consequently undertaken the following 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 & Annual Return for 2007-08;
- Checked, and amended in conjunction with the Clerk 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 to 31st January 2009;
- Checked the analysis of receipts and payments in the cashbooks for appropriateness and consistency of approach throughout the year; and
- In the absence of any effective bank reconciliations during the year by the Clerk, we have again prepared detailed bank reconciliations for each month-end to 31st January 2009.

Conclusions and recommendations

Whilst there is a continuing improvement in the accuracy of detail recorded in the cashbooks, we have still identified a number of errors during the year that required amendment in order to ensure consistent recording of values in the analysis columns in the cashbook and appropriate and consistent analysis of receipts and payments in the cashbook columns.

The spreadsheets are designed to afford a check on such errors and to facilitate the simple reconciliation of the cashbook's month-end balances at the close of each month to the relevant bank statements: this facility has, evidently, still not been used during the course of the year, resulting in the various errors going undetected or corrected.

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, although we do note the use of Treasury deposits for "investment" of surplus moneys. We also note that the Council's bankers have charged a £10 administrative fee each on the Imprest and map Accounts each month since July 2008. This has already cost the Council £120 to date in 2008-09 and we would again urge the Council to consider the previously recommended rationalisation of accounts in order to minimise bank charges.

R1. The Clerk should ensure that at the close of each month and on receipt of bank statements, the detailed cashbook entries correlate accurately with the bank statements and perform a formal reconciliation using the format provided previously be us. Where errors are identified, they should be amended and, if appropriate detail *taken up with the bank.*

R2. *The spreadsheet cashbook should be used to its full potential to ensure that the appropriate analysis of receipts and payments is recorded and that the correct VAT and net values are recorded in the appropriate columns.*

R3. *Urgent consideration should be given to the rationalisation of banking arrangements in order to both maximise interest earning potential (once the world financial position improves) and avoidance of unnecessary bank charges each month just for retaining the various accounts.*

Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework in place, that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that no actions of a potentially unlawful nature have been or are being considered for implementation. We have therefore undertaken the following work in this area: -

- We have made previous reference to the need to review and update both Standing Orders and Financial Regulations. Whilst noting 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 promised detailed review has been undertaken, although we note that members readopted the extant documents at the Annual Meeting of the Council in May 2007.
- We have also continued our review of minutes, examining the content of those up to and including the most recent meeting prior in January 2009 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.

Conclusions and recommendations

As highlighted in previous reports, 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.

Whilst acknowledging the re-adoption of the extant Standing Orders and Financial Regulations, together with the revised Code of Conduct for Members and latterly the revised Scheme of Publication under the Freedom of Information Act, the former will undoubtedly require some, albeit relatively minor, amendment to take account of recent legislation. NALC is revising its model set of Standing Orders and we would commend that, once promulgated, as being an appropriate baseline on which the Council should develop its own Standing Orders.

In examining the minutes, we noted that only the front page is generally being signed by the Chairman.

R4. *In view of recent legislative changes, the Council should undertake a review of and update its Standing Orders and Financial Regulations in line with the most recent NALC model documents.*

R5. *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.*

R6. *As the Council minutes are presented in loose-leaf format, each page should be initialled in order to preclude the opportunity for the substitution of pages.*

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures;
- Funds are expended in accordance with approved budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct analysis of expenditure has been applied in the cashbook to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

Conclusions & recommendations

No significant issues have been identified in this area of review. Although we note that no formal acknowledgements of receipt are held on file for the 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.

We note also that a VAT reclaim covering 2006-07 has now been submitted and been settled by HMRC and that the Clerk will finalise and submit that for 2007-08 once he has resolved the residual issues surrounding the petty cash account.

We also noted, as last year, 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, was not always in line with the actual costs of staff employed in each area and suggested that a more accurate analysis of these costs be identified in future in the cashbook. The clerk has addressed this for the latter months of 2008-09, but has still to review and update the analysis for the earlier months of the financial year.

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. The cost of NI and tax payments for the first few months of 2008-09 should be re-examined and be analysed in accordance with the areas where staff actually work, as has been implemented for the latter months of the year.

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition.

- We have again 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 understood that the Clerk intended to purchase the software and apply it early in 2008-09, but understand that no action has been taken to date in the year.
- 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 Public Liability cover which remains at £5 million and any potential damage that might occur to the football pavilion. We note that the building is insured, but that, despite previous recommendation, no insurance has been arranged to cover any potential loss of revenue through significant damage to the pavilion preventing use of the facilities.

Conclusions and recommendations

Due to the increasing level of financial settlements arising from various litigation actions, several councils have increased this cover to £10 million and we would suggest that the Council also considers its position in this area.

The Council needs to take urgent action to undertake detailed financial risk assessments, ideally using a software package such as that provided by DMH Solutions (Local Council Risk System - LCRS). We have assisted several councils with the implementation of this LCRS software acting as facilitators and would, should the Council proceed with purchase of the software, be prepared to provide a similar service: we estimate that up to a half-day would be required for such a service.

R9. The Clerk and Council should ensure that all potential areas of risk are assessed as a matter of urgency, also ensuring that the results are formally documented and reported to full Council, who share corporate responsibility for ensuring their effective completion.

R10. The Council should consider whether or not the existing level of Public Liability cover is adequate given the current litigatious nature of UK society.

R11. 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

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

- We note that the Council has completed its budget deliberations for 2009-10 approving an increased precept of £150,000 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.

Conclusions and recommendations

No significant issues arise in this area of our review at the present time apart from reiterating our previous suggestion that the cashbooks be used as a ready means of generating budgetary performance information during the course of the year.

R12. The Clerk should use the cashbook to generate periodic budget reports comparing actual spending during the course of the financial year to that approved when the annual budget and precept are set.

Review of Income

We have examined detail of receipts recorded in the cashbook 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, although we did note a few anomalies in the analysis of income, which we have corrected in conjunction with the clerk.

The Council provides only limited chargeable services by way of the sale of advertising space in the parish magazine and monthly rental and insurance contributions from Colney Heath FC for use of the sports field and pavilion.

We have examined the invoices raised covering the various fees collectable for the services provided and, whilst satisfied that no detail has been overlooked, would suggest that, when payment of an invoice is received, the top right hand corner be cut off, thereby affording clear indication of any outstanding debts: additionally, we would suggest that the date of receipt and banking of income be recorded on the invoice.

Examination of paying in slips indicated that, certainly at the close of the previous and start of this financial year, funds received were not being banked promptly.

Conclusions and recommendations

No major issues have been identified in this area, although we consider that procedures could be improved to provide for clear identification of any outstanding debts and that staff ensure that funds received are banked promptly.

R13. Once payment is received against an invoice, the top corner should be cut off and the date of receipt and banking be annotated on the file copy of the invoice in order to provide a clear means of identifying any outstanding debt and also provide a clear audit trail to the bank account.

R14. Moneys received should be banked promptly and ideally at least fortnightly.

Petty Cash Account

We have made much previous comment about the need to maintain effective and accurate records of all petty cash transactions and note that the clerk is still endeavouring to finalise work in this area covering transactions for the past three years. Whilst we have no concerns about the existence of any untoward activity in this area (as far as we have been able to ascertain in the past, the clerk is still owed a significant sum of money in respect of payments made by him on behalf of the Council and still to be recovered), we would urge that this matter be brought to a satisfactory conclusion by the close of the current financial year.

Thereafter, appropriate arrangements for maintenance of meaningful records of expenses incurred and their regular reimbursement should be enacted.

Conclusions

Due to the ongoing nature of this work we are not able to draw any conclusions at present and have agreed with the clerk that we will review the detail of the outstanding reimbursements due to the clerk at our next visit or, if time permits, in advance of that visit in order to ensure that the year-end position can be identified accurately and reflected accordingly in the year-end Accounts.

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme.

We have not undertaken any detailed verification of staff pay to date, awaiting

confirmation of staff pay rates as approved formally by the Council for 2008-09 in order that we may validate the physical payments made to staff during the year. We have seen no indication in the minutes that pay rates have been formally approved by members and would suggest that, certainly for 2009-10, the amounts paid to all staff, including those working for Treasure Tots, are formally approved by the Council

However, we have checked tax and NI deductions for Council and Treasure Tots staff payments in January 2009 applying the HMRC CD-Rom. We have also validated the overtime hours paid to Treasure Tots staff to underlying timesheets for that month.

R15. Members should formally approve the actual pay rates payable to each employee on a confidential schedule identifying, where applicable, the point on the NJC scale or, where staff are paid at different rates, the hourly rate of pay and number of conditioned hours to be worked each week.

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.

Conclusions and recommendations

The Council and Clerk need to take positive acti9n to comply with the requirements of the 1996 Accounts and Audit Regulations in order to prepare and maintain an effective asset register protecting the Council's interests.

*R17. 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.*

R18. The Asset Register should be reviewed and updated annually to include detail of new assets acquired and also of those disposed.

R19. 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.

Conclusions

No issues arise in this area of our review.

Action Plan

Rec. No.	Recommendation	Response
Review of Accounting Arrangements & Bank Reconciliations		
R1	The Clerk should ensure that at the close of each month and on receipt of bank statements, the detailed cashbook entries correlate accurately with the bank statements and perform a formal reconciliation using the format provided previously be us. Where errors are identified, they should be amended and, if appropriate detail taken up with the bank.	
R2	The spreadsheet cashbook should be used to its full potential to ensure that the appropriate analysis of receipts and payments is recorded and that the correct VAT and net values are recorded in the appropriate columns.	
R3	Urgent consideration should be given to the rationalisation of banking arrangements in order to both maximise interest earning potential (once the world financial position improves) and avoidance of unnecessary bank charges each month just for retaining the various accounts.	
Review of Corporate Governance		
R4	In view of recent legislative changes, the Council should undertake a review of and update its Standing Orders and Financial Regulations in line with the most recent NALC model documents.	
R5	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.	
R6	As the Council minutes are presented in loose-leaf format, each page should be initialled in order to preclude the opportunity for the substitution of pages.	
Review of Expenditure		
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	The cost of NI and tax payments for the first few months of 2008-09 should be re-examined and be analysed in accordance with the areas where staff actually work, as has been implemented for the latter months of the year.	

Action Plan

Rec. No.	Recommendation	Response
Assessment and Management of Risk		
R9	The Clerk and Council should ensure that all potential areas of risk are assessed as a matter of urgency, also ensuring that the results are formally documented and reported to full Council, who share corporate responsibility for ensuring their effective completion.	
R10	The Council should consider whether or not the existing level of Public Liability cover is adequate given the current litigatious nature of UK society.	
R11	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		
R12	The Clerk should use the cashbook to generate periodic budget reports comparing actual spending during the course of the financial year to that approved when the annual budget and precept are set.	
Review of Income		
R13	Once payment is received against an invoice, the top corner should be cut off and the date of receipt and banking be annotated on the file copy of the invoice in order to provide a clear means of identifying any outstanding debt and also provide a clear audit trail to the bank account.	
R14	Moneys received should be banked promptly and ideally at least fortnightly.	
Petty Cash Account		
R15	A formal petty cash account should be established as a matter of urgency, ideally on an imprest basis, with regular, at least quarterly replenishment of actual expenses incurred, rather than round sum "top-ups".	
R14	The Chairman of the Council or other delegated members should ensure that reclaims are submitted routinely, authorising them for reimbursement and also checking periodically the physical cash held against the underlying records.	

Action Plan

Rec. No.	Recommendation	Response
Review of Salaries and Wages		
R15	Members should formally approve the actual pay rates payable to each employee on a confidential schedule identifying, where applicable, the point on the NJC scale or, where staff are paid at different rates, the hourly rate of pay and number of conditioned hours to be worked each week.	
Asset Register		
R16	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.	
R17	The Asset Register should be reviewed and updated annually to include detail of new assets acquired and also of those disposed.	
R18	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.	

AUDITING SOLUTIONS LTD

Mr. J Dean
Clerk to the Council
Colney Heath Parish Council
Dawes Cottage
Dawes Lane
Sarratt
Rickmansworth
Herts WD3 6BG

22nd February 2009

Dear John

Internal Audit: interim update visit 2008-09

I am pleased to enclose the draft report following my visit to the Council last Wednesday and would ask that you present it to members and respond to the recommendations as soon as practicable and ideally in advance of my final visit, scheduled for 26th May.

There are a number of issues that remain uncleared from previous audits and I trust that you will be able to address many of them before my next visit. With regard to the petty cash, please give me a call when you have the records sorted and I will, when passing either Colney Heath or Sarratt call in and collect them, so that I may check the detail in advance of my final visit, as I would imagine time will be tight that day.

I left our invoice covering this recent visit on you laptop when I left last Wednesday and would appreciate settlement in due course. Many thanks for the customary hospitality afforded me during my visit: I look forward to seeing you and Kim again in May.

Yours sincerely

Stuart J Pollard
Director

The Offices, Griffin Farm, Bowden Hill, Lacock, Chippenham, Wiltshire. SN15 2PP
Tel: 01249 730994 Fax: 01249 730066 Email: contact@councilaudit.co.uk
www.councilaudit.co.uk

Registered 4357952 Directors: Stuart J Pollard & Anne Pollard