Colney Heath Parish Council

Internal Audit Report (Final) 2009-10

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 audit visits to the Council for 2009-10, which took place at the close of October 2009 and in early April 2010, together with subsequent work at our own offices.

Internal Audit Approach

In undertaking our review this year, 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 for the full financial year.

We saw no indication in the Council minutes that our final report for 2008-09 had been presented formally to members, although we have seen subsequent references to our current year interim report. It is considered essential that our reports are taken to the full Council and considered appropriately, with a formal response to each of the issues raised, be that in the form of acceptance and agreement of the action required and to be taken or determination that no further action is to be taken. In the absence of a formal response to recent reports, we have followed up a number of the issues identified and, where applicable, they are again restated in this final report for 2009-10.

Overall Conclusion

Overall, we are pleased to acknowledge the ongoing improvement in the accuracy of recording of accounting transactions, although a number of errors in data entry in the spreadsheet cashbooks were still evident that mad reconciliation and agreement of the year-end accounts more complicated than should be necessary. In order to reduce and remove the existence of further similar errors, it is essential that a formal and meaningful bank reconciliation on each of the Council's accounts is undertaken at the end of each month, verifying the accuracy of the cashbook balances as recorded in the spreadsheet cashbooks with that on the month-end bank statements.

We are, however, pleased to acknowledge the positive action taken to complete financial risk assessments using newly acquired software, together with some improvement in the quality of records maintained in respect of petty cash account transactions. We would ask that the Clerk and members give due consideration to the issues raised in the report and that we be provided with a formal response in advance of our next visit scheduled for the New Year.

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 2008-09;
- Checked and amended, in conjunction with the Clerk, transaction details in the cashbooks for the full financial year, where anomalies in the analysis of income and expenditure and / or values cleared through the bank accounts differed to the detail on the cashbooks, as presented for our examination. We are pleased to acknowledge the general improvement in this area and reduction in the number of anomalies identified this year. Notwithstanding that, the completion of an effective and meaningful bank reconciliation to the month-end cashbook balances should be undertaken, with any anomalies pursued and resolved accordingly.
- 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 quarter-end for the financial year.

Conclusions and recommendations

We are pleased to acknowledge the ongoing general improvement in the quality of record keeping this year with far fewer amendments being required to either total payment or analysis of receipts and payments in the cashbooks.

However, we remain concerned that the Clerk has not prepared any meaningful bank reconciliations during the year and would remind him and the Council of the advisability of performing regular month-end reconciliations, which would help highlight any recording errors on individual receipt and payment entries in the cashbooks.

We also note with continued concern that, despite our previous recommendation, members remain reluctant to rationalise the number of bank accounts in use, with regular monthly bank charges of £10 each being applied to two bank accounts despite their very limited use during the year. On one account only one cheque withdrawal occurred during the year, whilst on the other only fourteen small deposits occurred totalling £2,682, plus an additional deposit in March 2010 for £1,980.

The Council needs to give serious consideration to the continued maintenance of these two accounts, as the deposits received and one cheque drawn could simply have been transacted through the Council's main current account with no loss of accountability, but a saving of at least £240 of tax payers' money on unnecessary bank charges.

We also understood at our first interim visit that the Clerk had experienced a number of difficulties with the bankers with changes made to the operation of the Council's accounts by the bank without reference to the Council, an automatic daily transfer

process being implemented between the Current and Business Reserve accounts, keeping the former with a daily closing balance of £500. We note that this has now ceased with a resultant reduction in the number of transactions requiring processing through the cashbook.

As indicated in our interim report, we consider that the Council is not operating these accounts with due regard to achieving best value for money and consider that, as a maximum, only three accounts are essentially required for the effective discharge of the Council's financial management: the current, business reserve and interest earning accounts. All other accounts should be closed and balances be transferred to the current account, as even if the funds in these accounts are being retained for specific projects, the accounting records will allow for any movements on specific reserves to be identified at the year-end.

We also noted that the Clerk has continued to not enter data in the relevant month in which the transaction occurs, which further complicates the completion of effective month-end bank reconciliations. All cheque payments should be recorded in the month that cheques are drawn irrespective of whether or not they are presented at bank by the month-end. Direct debits should be entered similarly in the cashbooks in the month in which the transaction appears on the bank statement, irrespective of the invoice date: we have again noted instances where direct debits have been entered on the invoice date and then again in the subsequent month, when they appear on the bank statements.

We have discussed the correct approach to recording data in the cashbooks with the Clerk and also the correct approach to undertaking a meaningful month-end reconciliation on each account and trust that further improvements in the quality of record keeping will be evident next year.

R1. The Clerk should undertake a formal reconciliation at the close of each month on each bank account in order to ensure that the cashbook receipt and payment values are recorded accurately in the cashbook and that each account's month-end balance is correctly carried forward.

R2. Receipt and payment data should be entered into the cashbooks in the month in which it occurs, additional lines being added to the spreadsheets where necessary to provide for all monthly receipts and payments to be correctly recorded.

R3. In order to ensure that the Council observes the need for achieving best value in the operation of its bank accounts, either the clerk should negotiate with the bank the refund of bank charges on the two accounts where only limited transactions have occurred or close the accounts in order to avoid further unnecessary wastage of local tax-payer's Council tax occurs.

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 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 members readopted the extant Code of Conduct and Standing Orders (SOs), which embody the Financial Regulations (FRs), at the Annual Meeting of the Council in May 2009, there is no indication that a formal review of the content of either SOs or FRs has been undertaken since 2002; and
- We have also continued our review of minutes, examining the content of those for the year to date 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 previously, members need to undertake a full and formal review of the Council's extant Standing Orders at regular intervals to ensure that they remain in line with and reflect changes in local government legislation and approved local working practice. Similarly, we have not identified the existence of any Financial Regulations and would urge that the Council obtains a copy of the NALC model document and adapt that to meet its own purposes adopting the final document formally. We have provided the clerk with an electronic version of the NALC model document

We again note that, where members have approved the payment of grants and donations to local bodies, the powers relied on for each such payment have not been recorded formally in the minutes. Members should also 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 previously with detail of the relevant powers in existence for the Council to approve various ad hoc items of expenditure.

R4. *In view of the plethora of legislative changes in recent years, the Council should undertake a review of and update its Standing Orders, also preparing and adopting appropriate Financial Regulations in line with the most recent NALC model paying due regard to local working practices as approved by the Council.*

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.*

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.

Consequent upon the level of anomalies in data entry in the cashbooks and in order to validate the VAT detail in the cashbooks, we have examined all payments in the financial year, identifying the need for a few adjustments to cashbook detail where VAT had not been identified accurately or appropriately.

Conclusions & recommendations

No significant issues have been identified in this area of review, although we again 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, in order to provide a complete audit trail.

We are pleased to note that the long-standing VAT reclaims from prior years have been submitted and repaid by HMRC during the current financial year. We have worked closely with the clerk to determine the exact amounts recoverable for 2008-09 and previously, which has resulted in the identification of relatively significant overprovision for recoverable VAT from prior years: this has been duly adjusted in the current year's accounts with the resultant outstanding recoverable VAT for 2009-10 being agreed to the underlying records: the clerk should submit a claim for that amount as soon as is practicable and ensure that claims are submitted routinely in future years.

R6. 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).

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 note that the Clerk has acquired the LCRS and other similar software and has completed the process of assessing and scoring risks for likelihood and impact using that software.
- We have also reviewed the Council's insurance policy schedule with Zurich covering 2009-10 and consider that it remains appropriate for the Council's needs with Employers and Public Liability cover in place at £10m and £5m respectively, together with Fidelity Guarantee cover at £100,000.

Conclusions and recommendations

We are pleased to acknowledge the recent satisfactory completion of risk assessments, which we understand will be presented to the next Council meeting for approval by members. No residual issues have been identified in this area at present: we shall continue to monitor the ongoing maintenance of detailed financial risk assessments at future visits and, if deemed appropriate, comment further in future reports.

Notwithstanding that and due to the increasing level of financial settlements arising from various litigation actions, several councils have increased their Public Liability cover to £10 million and, as suggested last year, we consider that the Council should consider its position in this area.

R7. The Council should consider whether or not the existing level of Public Liability cover is adequate given the current litigatious nature of UK society.

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 the 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 are pleased to note that the Council has completed its formal consideration of the budgetary and precept requirements for 2010-11, approving a precept level of £155,580, as minuted formally for the January 2010 full Council meeting.

We are pleased to note that regular reporting of budget performance detail is provided to members, although we consider that greater use could be made of the spreadsheet cashbooks to provide the relevant comparative data for presentation in formal reports to the Council.

Conclusions and recommendations

No significant issues arise in this area of our review 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.

R8. 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.

Petty Cash Account

We have made much previous comment about the need to maintain effective and accurate records of all petty cash transactions and are pleased to note that the clerk has finalised work in this area covering transactions for the past three years.

We have now had an opportunity to examine this year's records noting that they are also maintained in spreadsheet format. It is pleasing to note that more formalised records have been maintained during 2009-10, although examination of the spreadsheet detail indicates that anomalies exist in the formulae or manner in which entries are being made, as several of the subtotals do not cast correctly with the resultant understatement of total payments in this area.

Conclusions and recommendations

Whilst there is marked improvement in this area, we retain a number of reservations about the effectiveness of controls in place in this area, with no obvious periodic and independent agreement of the physical cash holding to underlying records: indeed, given the level of data entry totalling errors apparent on the petty cash records, such a check could not have been undertaken to any great effect. We have provided the Clerk and his assistant with a more appropriate forma of record, which provides for the automatic provision of a running retained cash balance after each transaction is entered and would suggest that this be subjected to periodic physical validation of the actual cash holding by an independent officer or councillor.

In order to simplify the recording process further, we would also suggest that the account be run on an imprest basis with a fixed balance of say £500 retained, which should adequately cover any month's expenditure. A monthly reimbursement cheque should then be drawn for the amount actually expended returning the cash float to the h£500 imprest level.

R9. In order to simplify the petty cash accounting process, consideration should be given to operating the account on an imprest basis with monthly cheque drawn reimbursing the actual expenditure incurred in any month.

R10. The Clerk and Council should ensure that a formal record of petty cash expenditure is maintained routinely and regularly, with monthly reimbursement of actual expenditure incurred on behalf of the Council and a system of independent verification of the physical cash holding undertaken routinely.

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 commenced checking of the Clerk's payroll records, which are maintained using Sage payroll, to ensure that: -

- salaries are paid in accordance with the Council's approved levels; and
- Tax and NI deductions are made applying the appropriate tax codes and NI table for each employee.

Conclusions and recommendations

As previously, we have seen no indication in the Council's minutes that staff salaries have been formally approved by members in the past twelve to eighteen months.

We endeavoured to agree the amounts paid in October 2009 to staff to the Council's salaries as recorded on the Clerk's file. However, we have been unable to validate the basis of the monthly salaries paid by reference to the relevant documentation, as the Clerk's schedule has not been updated to reflect the rates of pay actually being applied.

In order that a meaningful verification of the amounts actually being paid to staff, the clerk should produce a formal establishment schedule identifying, for each employee, the applicable salary point on the national pay scale and basic working hour per week. That schedule should be submitted to Council for formal review and approval and then form the basis of each month's salary payment.

At our interim visit we checked and agreed the cumulative tax deducted from employees for the seven months to October 2009, together with that month's NI deductions by reference to the 2009-10 HMRC CD-Ro and were pleased to record that no issues were identified.

R11. The Clerk should prepare a formal schedule for presentation to and adoption by Council detailing the point on the national NJC pay scale, the basic weekly working hours and any enhanced payments due to employees such as London Fringe Allowance: this should then form the basis of the monthly gross salary payable.

Asset Registers

We have drawn attention in prior year reports 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 consider that positive action needs to now be taken to complete production of an appropriate detailed 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, where identifiable
- Detail of item
- Position where item is stored or fixed
- Serial number, where applicable
- Purchase cost
- Current year insurance value (if insured)
- Disposal date
- Value of any consideration received on disposal

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 action 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.

*R12. 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.*

R13. The Asset Register, once prepared, should be reviewed and updated annually to include detail of new assets acquired and also of those disposed.

R14. Consideration should also 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 such Treasury Deposit transactions as were held during the current financial year to the bank advice/contract notes, also verifying that interest due has been reinvested on the due dates.

The Council negotiated, received approval for and drew down a loan of £30,000 at the close of 2008-09, two half-yearly repayment instalments taking place during 2009-10. We have checked and agreed the disclosure of the loan repayments and residual loan liability, as recorded at Section 1 of the Annual Return for 2009-10.

Conclusions

No issues arise in this area of 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 2009-10 in order to produce a meaningful and accurate set of Accounting Statements for the financial year.

Conclusions

Consequent upon the assistance provided in this area, no issues have arisen from our work on the Statements that have not been referred to elsewhere in this report and been discussed in detail with the Clerk.

We have also assisted the clerk in identifying the appropriate detail for entry onto the Annual Return for 2009-10 and have duly completed and signed off the internal audit certificate at Section 4 assigning positive assurances where appropriate.

Action Plan

Rec. No.	Recommendation	Response
Review of Accounting Arrangements & Bank Reconciliations		
R1	The Clerk should undertake a formal reconciliation at the close of each month on each bank account in order to ensure that the cashbook receipt and payment values are recorded accurately in the cashbook and that each account's month-end balance is correctly carried forward.	
R2	Receipt and payment data should be entered into the cashbooks in the month in which it occurs, additional lines being added to the spreadsheets where necessary to provide for all monthly receipts and payments to be correctly recorded.	
R3	In order to ensure that the Council observes the need for achieving best value in the operation of its bank accounts, either the clerk should negotiate with the bank the refund of bank charges on the two accounts where only limited transactions have occurred or close the accounts in order to avoid further unnecessary wastage of local tax-payer's Council tax occurs.	
Review of Corporate Governance		
R4	In view of the plethora of legislative changes in recent years, the Council should undertake a review of and update its Standing Orders, also preparing and adopting appropriate Financial Regulations in line with the most recent NALC model paying due regard to local working practices as approved by the Council.	
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.	
Review of Expenditure		
R6	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).	
Assessment and Management of Risk		
R7	The Council should consider whether or not the existing level of Public Liability cover is adequate given the current litigatious nature of UK society.	
R8	Similarly, consideration should be given to the acquisition of additional insurance cover against potential loss of revenue through the football pavilion being unavailable for use.	

Action Plan

Rec. No.	Recommendation	Response
Budgetary Control & Reserves		
R8	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.	
Petty Cash Account		
R9	In order to simplify the petty cash accounting process, consideration should be given to operating the account on an imprest basis with monthly cheque drawn reimbursing the actual expenditure incurred in any month.	
R10	The Clerk and Council should ensure that a formal record of petty cash expenditure is maintained routinely and regularly, with monthly reimbursement of actual expenditure incurred on behalf of the Council and a system of independent verification of the physical cash holding undertaken routinely.	
Review of Salaries and Wages		
R11	The Clerk should prepare a formal schedule for presentation to and adoption by Council detailing the point on the national NJC pay scale, the basic weekly working hours and any enhanced payments due to employees such as London Fringe Allowance: this should then form the basis of the monthly gross salary payable.	
Asset Register		
R12	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.	
R13	The Asset Register, once prepared, should be reviewed and updated annually to include detail of new assets acquired and also of those disposed.	
R14	Consideration should also 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
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Sarratt
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RECEIVED
05 MAY 2010

2nd May 2010

Dear John

Internal Audit: Final Report 2009-10

Further to my recent visit to the Council and subsequent work on the Accounts and petty cash records, I enclose a copy of the draft report and trust that I have not misrepresented any of the issues. I have also forwarded a copy of the report by e-mail for your ease of reference and circulation to members. Might I ask that the report be presented to members and that you let me have a formal response to the Action Plan in due course.

I have signed off the Annual Return and would point out that we should have identified the receipt of the £30,000 loan from PWLB in Box 10 of last year's return. This year, the outstanding balance as at 31st March 2010 will need to be recorded, but I do not have a copy of the last payment voucher processed in 22009-10 on 23rd March 2010 (chq no. 5079) totalling £1,287.58. The PWLB repayment schedule will show three or four columns the first with detail of the brought forward outstanding liability (i.e. the loan total - £30,000 less the principle repaid in September 2009), the second with the amount of principle due for repayment in March 2010, the third the interest due for repayment in March 2010 and the fourth the total repayment due in March 2010 (i.e. £1,287.58). The detail to be entered in Box 10 is the difference between the detail in columns one and two.

I also enclose a summary of the petty cash account, duly amended for a few additional errors I identified (I am returning your copies with the amendments duly identified) and a revised summary of the year's petty cashbook transactions in a format that I would suggest could be applied in 2010-11 to record the account transactions. I have already started the entries on the worksheet for 2010-11 and have e-mailed a copy of the workbook to you ("Petty Cash Account"), together with the final revised cashbooks and year-end Accounts detail: a hard copy of the latter is also enclosed herewith.

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Registered 4357952 Directors: Stuart J Pollard & Anne Pollard

Many thanks for the customary hospitality afforded me during my visit: I look forward to seeing you and Kim later in the year when I visit to undertake the audit of the Treasure Tots accounts.

Yours sincerely

Stuart J Pollard
Director

Colney Heath Parish Council

Spoke to SP, Weds. 27/10.

From: STUPOLTEN@aol.com
Sent: 02 May 2010 19:09
To: colney2heath@btconnect.com
Subject: Internal Audit: Final Report 2009-10

Dear John

Internal Audit: Final Report 2009-10

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Many thanks for the customary hospitality afforded me during my visit: I look forward to seeing you and Kim later in the year when I visit to undertake the audit of the Treasure Tots accounts.

Kind regards

Stuart

Stuart J Pollard
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