AUDITING SOLUTIONS LTD

Colney Heath Parish Council

Internal Audit Report (Final update) 2010-11

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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 first audit visit to the Council for 2010-11, which took place in May 2011.

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.

Overall Conclusion

We are pleased to acknowledge the continuing 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 significantly impair the ability for periodic and effective reconciliation of cashbook balances to bank statements. We have previously stressed the need for the production of a formal and meaningful bank reconciliation on each of the Council's accounts at the end of each month in order to provide a means of verifying the accuracy of data entry into the cashbooks and restate that recommendation again this year.

Notwithstanding that, on the basis of the work undertaken this year, we have duly signed off the Internal Audit Certificate at Section 4 of the year's Annual Return, assigning positive assurances in all but two areas, detail of which we have discussed with the Clerk.

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 2009-10;
- 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 routinely, 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 providing copies to the clerk, together with the updated and final versions of the receipts and payments cashbooks.

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 the detailed 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 also help highlight any recording errors on individual receipt and payment entries in the cashbooks and ensure their early resolution.

We again noted in our interim report that, despite previous recommendation, members remained 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. We are now pleased to note that members have changed their stance in this respect and that the bank accounts have been closed at the start of 2011-12 with resultant savings in bank charges.

We also noted at our interim visit that data, specifically in relation to direct debits and occasionally to cheques, is not always recorded in the month in which the payment "hits" the bank account: this will obviously complicate production of any month-end bank reconciliation between the cashbooks and bank statements. There has been some improvement in the latter part of the year, but we would again stress the need for the Clerk to ensure that cheques are entered in the cashbook in the month in which they are

physically drawn (i.e. the date on the cheque) and that direct debits are only recorded as and when they pass through the bank account and not on the issue date of the invoice.

R1. A formal reconciliation between the month-end cashbook balances on each account and the bank statements should be undertaken in order to ensure that the cashbook receipt and payment values are recorded accurately 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.

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 comprehensive 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 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 indicated in previous reports, we consider it essential that councils undertake a regular comprehensive review of their extant governance documentation, including Standing Orders and Financial Regulations. The Council should note that NALC has recently produced a revised model set of Standing Orders, which we would commend for adoption by the Council suitably amended to reflect local working practice, also ensuring that an appropriate limit is set for formal tender action. The latest model document refers to a limit of £60,000, which we consider too high for most councils and would suggest that a more appropriate value of between £20,000 and £30,000 should be applied at this tier of local government.

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 previously provided the Clerk with detail of the relevant powers in existence for the Council to approve various ad hoc items of expenditure.

R3. In view of the plethora of legislative changes in recent years, the Council should *undertake a review of and update its Standing Orders and Financial Regulations in line with the most recent NALC model documents paying due regard to local working practices as approved by the Council.*

R4. 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 and 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

Whilst no significant issues have been identified in this area of review, we again note that no formal acknowledgements of receipt are held on file for 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 noted that outstanding VAT reclaims remain to be lodged with HMRC and have, during the course of our final visit , agreed the detail with the Clerk and trust that reclaims will now be submitted covering 2009-10 and 2010-11.

R5. 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 relevant bespoke software and has completed the process of assessing and scoring risks for likelihood and impact accordingly.
- We have also reviewed the Council's insurance policy schedule with Zurich covering 2010-11 and consider that it remains generally appropriate for the Council's needs with Employers Liability cover in place at £10m: however, we would again suggest that consideration be given to increasing the level of Public Liability cover to £10m in the light of the increasingly litigatious nature of UK society recent and litigation claim settlements. Fidelity Guarantee cover at £100,000 is also considered appropriate for the Council's current requirements.

Conclusions and recommendations

We are pleased to acknowledge the satisfactory completion of risk assessments: however, we have seen no indication through our examination of the Council's minutes, that they have been presented to the Council for formal agreements and adoption :we consider this a fundamental requirement in order that members may demonstrate that they are fulfilling their fiduciary responsibilities.

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.

R6. Financial risk assessments should, if not already actioned, be presented to and be adopted formally by full Council in order to effectively demonstrate compliance and discharge of members' fiduciary responsibilities.

R7. The Council should reconsider 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 2011-12, approving a precept level of £159,840, as minuted formally for the December 2010 full Council meeting.

We are pleased to note that regular reporting of financial 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.

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.

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 have no issues to raise in this area.

Conclusions

No matters have been identified in this area warranting formal comment or recommendation.

Petty Cash Account

We have made much previous comment about the need to maintain effective and accurate records of all petty cash transactions and were pleased to record previously that the clerk had 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. Whilst it is pleasing to note that more formalised records have been maintained, we have identified a number of anomalies in the detail recorded thereon in terms of the analysis of spending across varying headings.

We are potentially more concerned that the format of the spreadsheet does not provide for any automatic generation of the rolling balance of cash held. Consequently, we have discussed this with the Clerk at this final visit and jointly developed and appropriate form of spreadsheet record for use in 2011-12. It is intended that this will operate on an imprest basis with the actual spending reimbursed exactly each month returning the balance of cash held to the agreed imprest value.

Conclusions and recommendations

There is marked improvement in this area, although we retain a number of reservations about the effectiveness of controls in place during 2010-11. As indicated above, we have agreed a more appropriate form of record with the clerk for use in 2011-12 and trust that there will be further improvements in the quality of record keeping in this area.

Whilst only limited sums are involved, we would suggest that members should undertake a periodic check, ideally at quarterly intervals, on the account reconciling the physical cash held to the underlying records.

R9. Members should undertake a periodic review of the petty cash account, agreeing the physical cash holding to the underlying records.

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 examined 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 have again endeavoured to agree the amounts paid 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 may be undertaken, the Council should formally approve each staff member's annual or hourly / monthly rate of pay, detail being minuted formally.

We have checked and agreed the cumulative tax deducted from employees for the seven months to October 2010, together with that month's NI deductions by reference to the year's HMRC CD-Rom and were pleased to record that no issues arise.

R10. The Clerk and Council should ensure that all staff's annual salaries are formally *approved and that a permanent record of their level is retained for audit examination and validation of the amounts physically paid during the year.*

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 photographic register (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. We have recently learned of a change in the basis for valuing the assets with detail to be included at Section 1 of the Annual Return: whereas previous practice across the sector has been for councils to record detail uplifted annually for movements in the RPI as reflected in the annual insurance schedule, current guidance requires the value to be recorded at purchase cost or nearest approximation thereto.

*R11. The Council should comply with the requirements of the 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.*

R12. The Asset Register, once prepared, should be reviewed and updated annually to include detail of new assets acquired and also of those disposed.

R13. 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 "Investment" 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 to PWLB taking place annually. 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 2010-11.

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 2010-11 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 2010-11 and have duly completed and signed off the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances as deemed appropriate.

Action Plan

Rec. No.	Recommendation	Response
Review of Accounting Arrangements & Bank Reconciliations		
R1	A formal reconciliation between the month-end cashbook balances on each account and the bank statements should be undertaken in order to ensure that the cashbook receipt and payment values are recorded accurately 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.	
Review of Corporate Governance		
R3	In view of the plethora of legislative changes in recent years, the Council should undertake a review of and update its Standing Orders and Financial Regulations in line with the most recent NALC model documents paying due regard to local working practices as approved by the Council.	
R4	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		
R5	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		
R6	Financial risk assessments should, if not already actioned, be presented to and be adopted formally by full Council in order to effectively demonstrate compliance and discharge of members' fiduciary responsibilities.	
R7	The Council should reconsider whether or not the existing level of Public Liability cover is adequate given the current litigatious nature of UK society.	

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	Members should undertake a periodic review of the petty cash account, agreeing the physical cash holding to the underlying records.	
Review of Salaries and Wages		
R10	The Clerk and Council should ensure that all staff's annual salaries are formally approved and that a permanent record of their level is retained for audit examination and validation of the amounts physically paid during the year.	
Asset Register		
R11	The Council should comply with the requirements of the 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.	
R12	The Asset Register, once prepared, should be reviewed and updated annually to include detail of new assets acquired and also of those disposed.	
R13	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
Rickmansworth
Herts WD3 6BG

16th June 2011

Dear John

Internal Audit Report: 2010-11

Firstly may I apologise for not sending the report through earlier: I do not know how I overlooked it: either too many senior moments or not enough time to think straight at present – still it is finally drawing to an end and 30th June will soon be here.

I note that we didn't receive a formal response to the interim report, so have left detail of responses to the Action Plan recommendations arising at the interim visit blank at this stage: if you could let me have a response in due course I would be very grateful.

Might I also ask a further favour: somehow, and I am not quite sure how, I have managed to delete all the closing accounts records from my laptop. Could you please e-mail the final cashbooks, bank reconciliations and Accounts spreadsheets that I left with you to me at some stage, so that my files are up-to-date.

Many thanks for the customary hospitality afforded me during my visit: I look forward to seeing you and Kim later in the summer: I have 27th October in my diary for the first interim visit, but we need to set a date in August for met to carry out the Treasure Tots final review work and sign off on that. Could you ring Sarah at our new number, as below, to arrange a mutually convenient date in August for that visit?

I also enclose our invoice covering the final 2010-11 visit to the Council and would appreciate settlement in due course.

Yours sincerely

Stuart J Pollard
Director

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