AUDITING SOLUTIONS LTD

Colney Heath Parish Council

Internal Audit Report (First Interim) 2011-12

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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 2011-12, which took place on 25th October 2011.

Internal Audit Approach

In commencing 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, together with issues arising from prior year work. 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 this years' entries for the financial year to 30th September 2011.

Overall Conclusion

We are again pleased to acknowledge further improvement in the accuracy of recording of accounting transactions, although we have still identified a number of errors in data entry in the spreadsheet cashbooks that impair the ability for completing the 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 the month in order to provide a means of verifying the accuracy of data entry into the cashbooks and restate that recommendations again this year.

We note that the Clerk is considering suggesting to the Council the employment of a part time assistant to maintain the accounting records and would concur with the suggestion providing the right calibre of person is employed, as it will undoubtedly save us considerable time reviewing all data 100% and making the necessary corrections to ensure that the accounts are balanced and accurate.

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 spreadsheet cashbook to that as reported in the Statement of Accounts & Annual Return for 2010-11;
- Checked and agreed transaction detail in the cashbook for the financial year to 30th September and made appropriate amendments, in conjunction with the Clerk, where anomalies in the analysis of income and expenditure and / or values cleared through the bank accounts were identified;
- 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 for the financial year to 30th September 2011.

Conclusions and recommendations

We are pleased to acknowledge the continuing improvement in the quality of record keeping this year again with far fewer amendments being required to the 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 have again discussed the process with him during the visit providing guidance on the approach to be taken.

We are pleased to acknowledge the action taken to rationalise the number of bank accounts in use, following our previous recommendation, which has resulted in saving the Council £30 per month in bank charges.

We shall extend our examination of cashbook transactions at future visits applying the same test criteria and making any necessary adjustments to ensure that the year-end Statement of Accounts and Annual Return detail may be prepared appropriately.

As indicated in the preface to this report, we would support the Clerk's proposal to employ a part time book-keeper, which should assist in ensuring greater accuracy in the recording of transactions and free the Clerk's time for the primary functions of the Council.

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.*

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, we have seen no indication that a formal and detailed review of the content of either SOs or FRs has been undertaken since 2002 to ensure that they are in line with both current working practice and recent changes in legislation; and
- We have also continued our review of minutes, examining the content of those for the year to October 2011 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 should undertake a full and formal review of the Council's extant Standing Orders at regular intervals, at least bi-annually, to ensure that they remain in line with and reflect changes in local government legislation and approved local working practice. NALC has recently issued an updated version of the Standing Orders and we believe that work is under way on revisions to the model Financial Regulations.

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, reference purely being made to the approved schedule of payments including various grants. 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.

We shall continue our examination of minutes for the remainder of the electoral year at future visits and, if appropriate, comment accordingly.

R2. *In view of the plethora of legislative changes in recent years, the Council should undertake an urgent comprehensive 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.*

R3. *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 relevant powers relied on for each individual grant* *payment approved.*

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, again noting and making a few adjustments to cashbook detail in analysis and 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, although we note from minutes that such acknowledgement shave been received in certain cases.

No VAT reclaim has yet been submitted for 2010-11 or to date in 2011-12. With VAT in excess of £15,000 recoverable at the close of 2010-11, the claim for the year should be prepared and submitted to HMRC as a matter of urgency in order to ensure that interest earning opportunities may be maximised, albeit they being at a very low level in the current economic climate. We understand that the Clerk is aiming, once he is fully up-to-date with reclaims for the last and current financial years to submit claims quarterly in future. We would concur with this intention and will continue to endeavour to assist in ensuring the accuracy of such claims as and when they are prepared.

R4. Where grants and donations are issued to various organisations, a copy of the acknowledgement of receipt should be filed with the paid invoices: in order to assist the process, we suggest that two copies of the letter accompanying the payment be issued with a stamped addressed envelope and a request that one copy be signed and be returned for audit purposes (see also recommendation R3).

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 noted previously that the Clerk had acquired the LCRS and other similar software and completed the process of assessing and scoring risks for likelihood and impact using that software during 2010-11.
- We have reviewed the Council's current year insurance policy schedule with Zurich Municipal and consider that it remains appropriate for the Council's needs with Employers and Public Liability cover both now in place at £10m, together with Fidelity Guarantee cover at £100,000.

Conclusions

We were pleased to acknowledge last year the satisfactory completion of risk assessments, which were due to be presented to Council for formal approval by members. We would remind the Clerk and Council that this should not be regarded as a "one-off" task and that the assessments should be reviewed and, if appropriate, updated annually, the resultant documentation being presented to members for formal approval and adoption in order that they are able to demonstrate the satisfactory discharge of their fiduciary responsibilities in this respect.

No issues arise in this area currently warranting formal comment or recommendation at present. We shall check to ensure completion of such a review and the resultant documentation's formal adoption by Council at our future visits.

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.

It is currently too early for any formal consideration or final decisions to have been made with relation to the budgetary and precept requirements for 2012-13 at this stage: we shall undertake further work in this area at our next interim and final visits, also examining and following up any significant variances that may arise against the approved 2011-12 budget.

Conclusions

No significant issues arise in this area of our review at present, apart from reiterating our previous suggestion that the cashbooks be used as a ready means of generating budgetary performance information. We note, however, that the Clerk is providing members with quarterly budget update reports and will review them at our next visit.

Review of Income

The Council receives relatively limited income from sources other than the annual precept, primarily from rent of the football club premises and related insurance recovery contribution, community bus fares, newsletter advertising, bank interest and recoverable VAT. We note the ongoing development of allotment sites and will review the controls in place over the recovery of income in that respect, together with that for the community bus and newsletter advertising at our next visit: we note the significant current year reduction in the latter income stream and understand that the clerk is endeavouring to address this with alternative sources of income generation in this area.

We have, to date, checked and agreed detail of the analysis of income between the various headings as recorded in the cashbook, also checking detail of moneys banked to the supporting paying in slips.

Conclusions and recommendations

Whilst not examined in any detail, we note that invoices raised for the various income streams are identified using an alpha-prefix before the number. We consider that a more clear audit trail and easier referencing process would be achieved by applying consecutive numbers throughout the financial year using the year as a prefix and then numbering all invoices sequentially (e.g. 11/01; 11/02; et seq.). We would also suggest that invoices be annotated with the date of payment and that they also identify either the individual receipt number, where one is issued and / or the bank deposit slip reference in order to further clarify the audit trail.

Finally, in this area, in order to provide an easy means of identifying any unpaid debtor accounts, we would suggest that the top or bottom right hand corner be cut off of invoices as and when they are paid.

R5. Invoices should be issued using a single sequential reference number rather than apply separate alphabetical prefixes in order t provide a clearer audit trail.

R6. Paid invoices should be annotated to identify the receipt number, where issued, and / or the paying in slip reference number together with the date paid. Ideally, one corner should be clipped in order to simplify the task of identifying any unpaid accounts.

Petty Cash Account

We are required, as part of the Internal Audit Certification process in the Annual Return, to examine the Council's approach to the management and control of expenditure through any petty cash account in operation.

This has been an area of concern in previous years, with records not maintained currently and limited, if any, reconciliation of the actual cash holding to the underlying records. We spent considerable time at our final 2010-11 visit ensuring that the records were brought up-to-date and that an appropriate medium for recording transactions was put in place.

Whilst there have been some improvements in this area, the manner in which the records being maintained are still a cause for some concern with data not recorded in numeric format making the identification of the rolling balance impossible: we also note that VAT is not being identified in every case and separately recorded with the net value of expenses also not recorded in the analysis columns.

Conclusions and recommendations

Further improvements and training are necessary in this area to ensure that all such petty cash transactions are recorded appropriately and accurately and that the records serve to provide relevant data for inclusion in the year-end Accounts. We would also suggest that, in order to ensure that members observe their fiduciary responsibilities, they undertake a periodic verification of the actual cash held and reconcile that detail to the underlying records.

R7. The Clerk should ensure that the petty cash accounting records are maintained accurately and reflect the actual numerical value of transactions, that VAT is identified in every relevant instance for recovery, that the net value of the expense being recorded in the appropriate analysis column and that the account is balanced and reconciled to the physical cash holding periodically.

R8. The Council should meet its fiduciary responsibilities in this area by undertaking a periodic review and reconciliation of 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 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 letter for each employee.

Conclusions and recommendations

As highlighted in previous reports, we have seen no indication in the Council's minutes that staff salaries have been formally approved by members.

We have again endeavoured to agree the amounts paid in September 2011 to staff to the Council's salaries as recorded on the Clerk's file. However, as also indicated previously, 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.

The Council needs to ensure that all staff salaries are formally approved and that the employment contracts in place reflect the agreed terms and conditions of service including annual salary and basic weekly working hours.

It is evident, from examination of the gross amounts payable, that staff pay is not directly aligned to the nationally agreed pays scales, although they are not too wide of the nationally agreed scales. In order to simplify the Clerk and Council's task of reviewing staff pay annually, we would suggest that staff pay be realigned to match the national scales with scope provided for incremental progression where measurable satisfactory performance is considered and agreed for recognition.

We have also checked and agreed the cumulative tax deducted from employees for the six months to September 2011, together with that month's NI deductions by reference to the current year's HMRC database: similarly the pension contribution for the one employee contributing to the LG scheme has been agreed. No issues have been identified in respect of the above.

R9. The Council should ensure that all staff pay is approved, with monthly gross amounts approved in line with the approved rates and also that formal employment contracts are in place reflecting the current terms and conditions of service, including pay rates and basic weekly working hours.

R10. Consideration should be given to aligning the pay rates to the nationally agreed NJC pay scales, in order to simplify the identification, grant and payment of annual cost of living awards and incremental progression where incorporated in the terms and conditions of service set down in the employment contracts for each employee.

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: to date, only the first half-yearly repayment instalment has been paid, detail of which we have verified as part of our expenditure testing referred to previously.

Conclusions

No issues arise in this area of our review at present. We shall review and verify the accurate disclosure of the residual loan liability and any term deposit balances as at 31st March 2012 in the Annual return for 2011-12 at our final visit.

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.	
	Review of Corporate Governance	
R2	In view of the plethora of legislative changes in recent years, the Council should undertake an urgent comprehensive 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.	
R3	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 relevant powers relied on for each individual grant payment approved.	
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Action Plan

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R8	The Council should meet its fiduciary responsibilities in this area by undertaking a periodic review and reconciliation of the physical cash holding to the underlying records.	
Review of Salaries and Wages		
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AUDITING SOLUTIONS LTD

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

3rd November 2011

Dear John

Internal Audit Report: 2011-12 (First Interim)

Many thanks for the customary courtesy and attention afforded me during my visit last week. Thanks also for forwarding the petty cash account records, which I have updated and corrected accordingly for the year to date, returning the updated record by e-mail with a covering note, a copy of which is also attached hereto. I am pleased to now enclose the draft report and trust that I have not misrepresented any of the detail therein: should I have done so, please let me know so that I may make any necessary amendments prior to the report's presentation to members. A copy has also been sent by e-mail for your ease of reference, distribution to members and response to the issues raised.

I note that I have not received a formal response to last year's final report, nor could I see any indication in the minutes for the year to date, that the report had actually been presented to them for their consideration and response to the issues arising.

In the covering letter for the last report, I asked a further favour as, somehow, 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, so that my files are up-to-date and in order that I will be able to complete this year's year-end work appropriately.

As discussed, I have put the dates for the next interim and final visits in my diary as 15th February and 22nd May 2012.

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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