



ISSUES ARISING REPORT FOR
Red Lodge Parish Council
Audit for the year ended 31 March 2011

Introduction

The following matters have been raised to draw items to the attention of Red Lodge Parish Council. These matters came to the attention of BDO LLP during the audit of the annual return for the year ended 31 March 2011.

The audit of the annual return may not disclose all shortcomings of the systems as some matters may not have come to the attention of the auditor. For this reason, the matters raised may not be the only ones that exist.

The matters listed below are explained in further detail on the page(s) that follow;

- Minutes
 - Risk Assessment
 - Fidelity Guarantee
 - Budgetary Process
 - Employment Status
 - No review of effectiveness of internal audit
 - Restatement of Fixed Assets
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The following issue(s) have resulted in the annual return being qualified. They indicate a weakness in the council's procedures and require the council to take immediate action.

Risk Assessment

What is the issue?

The risk assessment has not been reviewed and minuted by the council during the year to 31 March 2011.

Why has this issue been raised?

This is a breach of regulation 4 of the Accounts and Audit (England) Regulation 2011 which requires authorities to review the effectiveness of internal control which includes arrangements for the management of risk.

What do we recommend you do?

The council must review its risk assessment as part of its review of the effectiveness of internal control and ensure that this review is minuted at least once a year before the end of the financial year. This review is for the council to evidence as a whole that it is satisfied that its internal controls are adequate and that all the risks facing the council have been identified and safeguards have been put in place to protect against those risks.

An example of the risks and how they can be handled is included in "A Practitioner's Guide" published by NALC & SLCC and an example risk table is available on our extranet. If the council decides to utilise this table it should be reviewed in detail, modified and tailored to the council's specific needs. If you do not have access to the internet, contact us and we can supply you with a copy.

Further guidance on this matter can be obtained from the following source(s):

Governance and Accountability in Local Councils in England - A Practitioners Guide, NALC/SLCC Audit Briefing, Winter 2010 - BDOSH

The following issue(s) have been raised to assist the council in improving its internal controls or working practices. The council is recommended to consider these but is under no statutory obligation to act upon them.

No review of effectiveness of internal audit

What is the issue?

The council has not considered and minuted as such a review of the effectiveness of internal audit as part of its internal control procedures.

Why has this issue been raised?

The council is required to undertake an annual review of the adequacy and effectiveness of its internal controls in accordance with Regulation 4 of the Accounts and Audit (England) Regulations 2011. A review of the effectiveness of internal audit is considered part of this review of internal controls.

What do we recommend you do?

The council should ensure that it considers the effectiveness of its internal audit as part of its control review. When performing their review of the effectiveness of the internal audit, the following areas should be considered and documented in the minutes:

- Scope of the internal audit
- Independence
- Competence
- Relationships
- Audit planning and reporting

Examples of how to undertake the review can be found on our Local Council extranet. If you do not have access to the internet please request copies of the documents from us.

Further guidance on this matter can be obtained from the following source(s):

Accounts and Audit (England) Regulations 2011
Local Council Briefing 2011
BDO Extranet - www.bdo.co.uk/BDOSH/councils

The following issue(s) have been raised to assist the readers of the annual return. They require no action to be taken by the council.

Restatement of Fixed Assets

What is the issue?

The comparative figure in box 9, total fixed assets, disclosed in Section 1 of the Annual Return does not agree to the audited Annual Return for the year ended 31 March 2010. The comparative figure in box 9 was restated and we have verified this figure. This restatement does not affect the balances carried forward into 2011.

Why has this issue been raised?

This is a note for the reader of the accounts.

What do we recommend you do?

No further action required.

Further guidance on this matter can be obtained from the following source(s):

Governance and Accountability in Local Councils in England - A Practitioners Guide, NALC/SLCC

The following issue(s) have been raised to assist the council. The council is recommended to take action on the following issue(s) to ensure that the council acts within its statutory and regulatory framework.

Minutes

What is the issue?

The council produced printed minutes, which were submitted for audit purposes. The pages were not initialled by the person signing the minutes.

Why has this issue been raised?

This council submitted minutes for audit purposes which were not maintained in accordance with schedule 12, paragraph 41(2) of the Local Government Act 1972.

What do we recommend you do?

The council should ensure with immediate effect that if a loose leaf minute book is maintained the loose leaf pages are consecutively numbered and initialled by the person signing the minutes.

Minutes must be maintained in accordance with the Local Government Act 1972. Loose leaf minute books are lawful but the loose leaf pages must be consecutively numbered and each page must be initialled by the person signing the minutes.

Further guidance on this matter can be obtained from the following source(s):

Local Council Administration, 7th Edition, Charles Arnold-Baker, Chapter 7

Fidelity Guarantee

What is the issue?

The council have reviewed the level of fidelity guarantee cover, however this still appears to be insufficient in light of the bank balances held at 31 March 2011.

Why has this issue been raised?

A council, under S114 of the Local Government Act 1972, must take security as it considers sufficient in the case of any of its officers likely to handle its money. The council may decide that insurance is not 'sufficient' for them, but in order to come to this opinion it must have reviewed the requirement annually and have objective grounds for such a conclusion.

What do we recommend you do?

The council should consider the level of insurance cover and set it to a level that will protect the council against potential loss. The council should review the level of cover at least annually as circumstances may change throughout the year.

The amount should be sufficient to cover the maximum amount of money the council holds at any one time during the year. A council does not have to have fidelity guarantee insurance if it considers that no security is 'sufficient' but there must be objective grounds for such a conclusion. Smaller councils may decide therefore that the cost of this insurance is disproportionate to the risk involved. If this is so the council should minute this decision annually.

Further guidance on this matter can be obtained from the following source(s):

Local Council Administration, 7th Edition, Charles Arnold-Baker, Chapter 9.8
Governance and Accountability in Local Councils in England - A Practitioners Guide, NALC/SLCC

Budgetary Process

What is the issue?

The Internal Auditor reviewed the budgetary process and has noted that although a precept was set by the due date the council did not monitor its budget during the year.

Why has this issue been raised?

The council were exposed to criticism due to the lack of evidence of budget monitoring and the risk of overspending. The council demonstrated a lack of financial control.

What do we recommend you do?

The council must ensure the acceptance of the budget is minuted and it regularly reviews the actual income and expenditure against the budgeted income and expenditure. The council should monitor the budget at least quarterly or more frequently if required.

This is an essential internal control and a key aspect of the financial management of the council. Minutes must clearly record the decisions of the council as they are the lawful record of the events of the council's meetings. The amount of budget monitoring undertaken during the year will depend upon the size of the council and the complexity of its finances.

Further guidance on this matter can be obtained from the following source(s):

Governance and Accountability in Local Councils in England - A Practitioners Guide, NALC/SLCC

Employment Status

What is the issue?

The internal auditor has raised concerns over the payment of staff salaries without PAYE and NI deductions.

Why has this issue been raised?

HMRC applies a tight and restrictive definition for employee status and has recently declared that clerks cannot be self employed.

What do we recommend you do?

The council must review the employment status of all individuals employed on a self employed basis, or at least obtain approval from the Inland Revenue that the people they engage on a self employed basis are indeed self employed. We understand from HMRC that all previous agreements with clerks/RFOs are now void. All councils should contact HMRC to establish PAYE schemes as soon as possible.

Further guidance on this matter can be obtained from the following source(s):

HMRC guidance on website

No other matters came to our attention.

For and on behalf of
BDO LLP

Date: 15 December 2011
