
Leigh-On-Sea Town Council

Internal Audit Report 2010-11 (Final update)

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Background and Scope

The Accounts and Audit Regulations 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 accordingly, in terms of independence from the Council decision making process, appointing a local practice to provide the service for the Council. However, subsequent to the retirement of the previous Clerk and the recruitment of the present incumbent, alternate suppliers from the EALC recommended list were asked to submit their expressions of interest and, as a result, Auditing Solutions Limited were appointed.

This is, therefore, our first year's report for the Council and sets out those areas examined during the course of our recent final visit for 2010-11, which took place on 17th June 2011, and supplements that undertaken at the interim stage in March 2011.

Our programme of coverage is designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner appropriate to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme of cover is also designed to facilitate our certification of the Annual Return that forms the Council's formal Statement of Accounts subject to external audit certification.

This report, together with our file of working papers prepared during the year, is available, on request, should the external auditors require any further assurances in any specific areas.

Internal Audit Approach

In undertaking our review for the current year, we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts, employing a range of selective sampling techniques (or 100% substantive testing if appropriate) across a range of the Council's activities in accord with our previously circulated Internal Programme of Work.

Overall Conclusion

We are pleased to report that no major issues have been identified: any minor matters arising are embodied in the text of the Report and are summarised in the appended Action Plan, which we have updated where applicable following this final visit for the year.

We have duly "signed off" the Internal Audit Certificate at Section 4 of the Annual Return, assigning positive assurances in all areas, and the Clerk and his staff are to be commended on the quality of working papers and other documentation provided for the audit purposes,

Detailed Report

Review of Accounts and Accounting Arrangements

Our objective has been 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, therefore, undertaken the following checks in this area:

- Ensured that an appropriate nominal ledger coding structure is in place, although we note that the new Clerk has now streamlined the existing Chart of Accounts to further assist the budget monitoring and reporting process in 2011-12;
- Checked and agreed transactions on the Current bank account, as recorded on the Edge accounting system software, with the entries on the relevant HSBC bank statements for three sample months (April & September 2010 and February 2011);
- Checked and agreed all transactions (due to the low volume) on the Reserve bank account, as also recorded on the Edge software, with the entries on the HSBC bank statements for the year to mid March 2011;
- Checked and agreed the Current account month-end bank reconciliations as at the end of the three sample months noted above;
- Checked and agreed the Reserve account month-end bank reconciliations as at 21st September and 31st March 2011, noting the due clearance of several, previously long standing, uncleared effects with no further such items arising; and
- Checked and agreed all bank account reconciliations as at 31st March 2011 verifying the closing balances disclosed in Section 1 of the Annual Return.

Conclusions

No issues requiring formal comment have arisen in this area and we are pleased to note the high standard of record keeping and the retention of regular, hard copy reconciliations.

Review of Corporate Governance

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

- Concluded our examination of the minutes of meetings of the Full Council and its Standing Committees (except Planning) for the current financial year in full (including those in April 2011 prior to the changes in membership) to ensure that no issues affecting the Council's financial stability either in the short, medium or long term exist, also that no legal issues are in existence

whereby the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred;

- Noted that an appropriate Review of the Effectiveness of Internal Audit had been undertaken and adopted by the Finance & General Purposes Committee at its meeting in October 2010; and
- We also note that the Council's Standing Orders and Financial Regulations have been subject to scrutiny, initially by a specific Working Party who compared and contrasted extant documentation with the revised NALC model documents and suggested detailed revisions. These revisions were agreed at Committee level and all appropriate typographical changes have now been made with the final documents, including revised Terms of Reference for each Committee, circulated to members of the Finance Committee for formal adoption at their meeting on 13th April 2011.

Conclusions

No significant issues arise in this area: we shall consider the financial implications of the ongoing plans for the Old Town Community Group's partnership funding and Heritage Lottery bids at future visits.

Review of Purchasing and Payment Procedures

We have tested a sample of supplier payments made during the financial year to March 2011, examining all those individually in excess of £1,000 together with a more random sample of every 20th item of paid expenditure transactions, irrespective of their value. The sample totals £67,742, and represents 61% of all non-pay related items processed. We have examined the test sample measuring performance against the following criteria to ensure that each payment is:

- Supported by a trade invoice or other appropriate form of supporting documentation;
- Supported by an official order, where appropriate;
- Supported by proper quotations and / or a formal tender process where applicable under the terms of the Council's Financial Regulations;
- Posted accurately to the Edge software nominal ledger expenditure headings;
- Authorised as seen by members during the course of the cheque approval processes and subsequently summarised for adoption by Full Council; and
- That the calculation and recording of VAT to the VAT control account for subsequent recovery has been actioned correctly.

Conclusions and Recommendation

As a "non-registered" body with no Vatable supplies, formal quarterly returns are not required to be submitted to HMRC: we note that recovery claims continue to be made bi-annually, with that for the period ending September 2010 issued on 24th November 2010. At this final visit we have verified the closing March 2011 Return submission to the outstanding debtor balance in the Statement of Accounts.

We are pleased to note the perfectly acceptable form of payments approval “slip” being applied to each invoice and that these are being initialled as evidence of inspection by two councillors when they sign cheques. We note from our test sample that no significant expenditure requiring formal tender processes has occurred this year, also noting from the minutes that quotations are obtained and considered periodically.

However, we note that an official ordering process is virtually non-existent with just 8 such documents being issued during the current financial year. We discussed this area with the new Clerk as part of the “round up” at the conclusion of the visit and acknowledge that there are other controls in place, such as the detailed consideration of costs by the Finance Committee, in particular its hands-on Chairman, the regular budget monitoring reports issued at all Committee levels and the relatively low volume of transactions and absence of any significant external service provisions. Whilst not a formal, legal requirement, we consider that best practice would suggest that further consideration be given to implementing an official ordering process in 2011-12 in accord with the revised Financial Regulations and Committee Terms of Reference.

R1. Further consideration should be given to expansion of the use of official orders in the forthcoming financial year. This was duly agreed and a system has been introduced in 2011-12.

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 that an appropriate risk assessment register for all principal areas of the Council’s activities was established in the 2009-10 financial year. The Clerk is aware that this should be seen as an area for regular review and update, although we consider that the extant documentation meets the current needs of the Council: however, detail should be reconsidered at regular, ideally annual intervals, and be re-adopted by members; and
- Examined the Council’s current (to mid August 2011) insurance policy with Zurich Municipal to ensure that appropriate cover is in place and that members have reviewed its content and determined that cover in each area is appropriate to the Council’s needs. We note that the level of Public Liability cover remains at £5 million and, as discussed with the Clerk during the course of “round-up” at the end of our recent interim visit, suggested that consideration be given to increasing this to £10 million at the next renewal date. Our view in this area is covered by concerns over the ever-increasingly litigious nature of UK society and secondly we have identified from audit work in other parts of the country that District Councils and Unitary Authorities are increasingly requiring this level of cover to be in place at the Town Councils within their boundaries.

- Fidelity Guarantee cover stands at £300,000, which we consider to be more than adequate to meet the “rule of thumb” guidance levels of closing bank balances (currently £180,000) plus half-year’s precept (£100,000).

Conclusions and Recommendations

Other than to restate the comments noted above, no significant issues have been identified.

- R2. *Whilst the risk assessments registers are considered acceptable at present, they should be subjected to regular annual review and re-adoption by the Council. **Accepted and will be actioned accordingly.***
- R3. *Consideration should be given to increasing the level of Public Liability insurance cover to £10 million prior to the policy renewal date. **Agreed and implemented with immediate effect with no additional premiums payable until renewal.***

Budgetary Control and Reserves

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the local Unitary Authority, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans. To meet this objective:

- We note from minutes and other documentation provided during the course of our work that the budget and precept deliberations for 2011-12 were concluded satisfactorily with the latter being formally adopted and recorded at £199,615 (no change from 2010-11) at the Full Council meeting in December 2010;
- We are pleased to record that members are provided with sound, periodic (usually monthly) and comprehensive management accounting information in order to provide an appropriate means for monitoring budgetary performance during the current year;
- We noted from the closing Statement of Accounts for 2009-10 and the recently adopted “budget book” for 2011-12, that several specific Earmarked Reserves have been established previously and that the minutes indicate occasional virement; and
- We can record that as at 31st March 2011 Total Reserves stood at £166,000 comprising specific Earmarked items totalling £93,800 and a General Fund balance of £72,200. At current levels, the latter represents approximately four to five months’ net expenditure and sits nicely within the CiPFA guidance levels of three to six months.

Conclusions

No matters arise warranting formal comment in this area.

Review of Income

In this area of our review work, we aim to ensure that income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale, also that it is banked promptly in accordance with the Council's Financial Regulations. In addition to the precept, the Council's principal sources of income are allotment rentals, monthly farmers' market pitch fees, community transport / event ticket sales and ad-hoc activities such as Xmas Lights and Fishing Festivals. We have undertaken the following testing in this area:

- We note from our review of minutes that members previously reviewed the scale of fees and charges to be applied in 2010-11 and that these have been appropriately reconsidered for 2011-12, agreeing increases in allotment rents whilst other charges remain unchanged;
- We note that the Market trader pitch fees are collected manually by Council officers "on the day" and that a suitable register is maintained to record attendance and payment;
- As noted earlier in this report, we have checked and agreed a sample of three months' receipt transactions from the Edge software income report to relevant bank statements;
- We have identified that bankings are undertaken in a timely manner, at least fortnightly, and that the duplicate paying-in slips record a sound analysis to separate detail of cash and cheques;
- We have identified that the allotment tenants are required to sign and return a copy of their tenancy agreement, which has recently been revised and updated, together with their rent payment slip. The latter form part of the back-up retained in support of each individual banking and we note that, in a similar manner to supplier invoices, an appropriate software input document is attached. We have checked examples of these with no issues arising; and
- We have at this final visit, been provided with full nominal ledger income code transaction reports and these have been visually reviewed in full to ensure that there are no obvious errors or omissions, particularly in relation to periodic receipts.

Conclusions

No significant issues worthy of formal recommendation have arisen in this area of our work.

Petty Cash Account

A relatively limited petty cash account is operated in the Council's office on a straightforward "top-up as required" basis, as exemplified during the course of our

interim visit when a member attended to sign some cheque payments and subsequently walked to the local branch of HSBC to obtain the cash tin reimbursement on behalf of the Finance Officer.

- We note from our examination of minutes that a maximum encashment of £200 per week has been authorised by members, although clearly from our visual review of the payments report, the levels of expenditure are materially lower than this limit;
- Sound records of supporting supplier invoices / till receipts are retained and detail is regularly “signed off” by the Chair of Finance Committee;
- Payment transactions are entered into the Edge Paid Expenditure reports in the same manner as other cheque payments with full details of the payee and goods and VAT is separately recorded for periodic recovery where appropriate; and
- A physical count of the cash-in-hand was not undertaken, or considered necessary, because we note this is already undertaken independently by officers and members on a regular basis.

Conclusions

There are no further comments required in this area of our testing.

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 Revenue 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, as further amended with effect from 1st April 2009, as regards employee contribution bandings. To meet that objective, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually;
- Noted that the payroll bureau provider Acumen has been engaged to provide their services in 2010-11 following the retirement of the previous Clerk. We have encountered this provider at other Councils elsewhere and consider that the work they undertake is of a high standard and cost efficient;
- Agreed the amounts paid to employees by reference to the approved pay scale on the NJC annual schedule of rates payable, where applicable, or to the individuals’ letters of annual amendment where not paid on those scales, examining a sample of all those salary payments made in February 2011;
- Ensured that tax and NI deductions for all employees have been made applying the appropriate PAYE code and NI Table;
- Checked that the correct superannuation percentage deductions, as amended from 1st April 2009, are being applied;
- Checked and agreed the net payments to staff from copy payslips to the cashbooks;

- Similarly checked and agreed the payments of deductions to HMRC and Essex County Council from copy payroll reports to cashbooks and have, as part of the supplier payments testing noted earlier, summarised the month by month total payments with explanations obtained for any variances arising therein;
- Noted that overtime payments are not normally made, any extra hours worked being “rewarded” under the Time Off In Lieu scheme; and
- Verified the submission of the Council’s P14 / P35 Annual PAYE Returns to HMRC, electronically as required by extant legislation, prior to their deadline in mid-May 2011

Conclusions

We are pleased to note that no significant errors or omissions have been identified in this area of our work. Two potential, very minor under-deductions of LGPS contributions were raised with the Clerk during the course of the “round up” discussion at the conclusion of the interim visit: he agreed to review the position and make any necessary adjustments, which has subsequently been actioned accordingly.

Asset Registers

The Accounts and Audit Regulations 1996 (as amended periodically) require that all Councils establish and maintain inventories/asset registers of buildings, land, plant and equipment, etc. owned by them.

We are pleased to note that this is the case at Leigh-on-Sea, with the current Clerk having updated the work of the previously retired officer for appropriate acquisitions in 2010-11 together with revisions to values of some items in accord with the latest insurance policy.

Conclusions

We have reviewed the content of the asset register and consider it to be more than adequate to meet the needs of the Council at present.

As discussed with the Clerk during the course of this final visit, the Practitioners Guide advice has recently been updated in this area, with best practice now requiring that all assets should be held in the registers at cost (or current replacement valuation where the purchase cost is not known) in perpetuity with no depreciation charges of insurance policy “inflation”. We provided him with a brief summary of these changes but, due to the late notification and to ensure consistency with prior year, no amendment was considered necessary to the data already completed but this issue will need to be considered prior to the 2011-12 close down.

Investments and Loans

Our objectives here are to ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

Conclusions

Currently the Council holds no specific investments or Treasury term deposits, any “surplus” funds being held for instant access in the HSBC’s Community Savings account.

Similarly, the Council has no loans either payable by, or repayable to, itself.

Statement of Accounts and Annual Return

We have verified the accuracy of detail in the Annual Statement of Accounts, as produced initially by the Edge accounting software but also supplemented by more formal supporting Income & Expenditure and Balance Sheet statements prepared by the Clerk, to the underlying records and other documentation provided.

Additionally we have verified the transposition of the summarised results, and prior year’s comparators, onto the face of the Annual Return at Section 1.

Conclusions

We are pleased to note that no further issues have been identified in our review and, on the basis of the work completed on the Council’s Accounts and other relevant supporting documentation for the year, we have duly “signed off” the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant area, leaving the original documentation with the Clerk for onward transmission to the external auditors.

Action Plan

Rec. No.	Recommendation	Response
Review of Purchasing and Payment Procedures		
R1	Further consideration should be given to expansion of the use of official orders in the forthcoming financial year.	<i>This was duly agreed and a system has been introduced in 2011-12.</i>
Assessment and Management of Risk		
R2	Whilst the risk assessments registers are considered acceptable at present, they should be subjected to regular annual review and re-adoption by the Council.	<i>Accepted and will be actioned accordingly</i>
R3	Consideration should be given to increasing the level of Public Liability insurance cover to £10 million prior to the policy renewal date.	<i>Agreed and implemented with immediate effect with no additional premiums payable until renewal</i>